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TIMBER CONTRACT RELIEF ACT

HEARINGS

BEFORE THE

SUBCOMMITTEE ON
FORESTS, FAMILY FARMS, AND ENERGY

OF THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

NINETY-SEVENTH CONGRESS

SECOND SESSION

ON

H.R. 6913

AUGUST 17 and 18, 1982

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TIMBER CONTRACT RELIEF ACT

TUESDAY, AUGUST 17, 1982

House of Representatives,
Committee on Agriculture,
Subcommittee on Forests, Family Farms, and Energy,
Washington, D.C.

The subcommittee met, pursuant to call, at 10 a.m., in room 1302, Longworth House Office Building, Hon. Jim Weaver (chairman of the subcommittee) presiding.

Present: Representatives Huckaby, Skeen, and Chappie.

Also present: Representative de la Garza, chairman of the full committtee; and Representative Clausen.

Staff present: Christine D. Abram, clerk; Gregory Skillman, Richard Fritz, and Kevin Kirchner.

OPENING REMARKS OF HON. JIM WEAVER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OREGON

Mr. **Weaver**. The subcommittee will be in session.

We have met to hold a hearing today on H.R. 6913 and related bills.

[H.R. 6913, 97th Cong., 2d sess.]

A BILL To provide for the orderly termination, extension, or modification of certain contracts for the sale of Federal timber, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled. That the Congress finds that in order to avert widespread bankruptcies, sustain the flow of income from Federal forest lands to the Federal Treasury and to units of local government, and assist in restoration of employment, it is in the national interest to provide for the modification of certain contracts for the purchase of timber from Federal lands.

Sec. 2. Upon a showing of economic hardship by the private contracting party, the Secretary of the Interior for public lands and the Secretary of Agriculture for national forest system lands are authorized to modify any timber sales contract bid prior to January 1, 1982. Such modifications may include—

(1) termination of a portion of timber sales contracts for the purchase of timber bid prior to January 1, 1982, held by a private contracting party;

(2) extension of the termination dates of such contracts, not to exceed five years beyond original termination dates of such contracts; and

(3) modification of the purchase price of the timber sold, reflecting current market values, for such contracts that are not extended.

Sec. 3. The Secretaries shall publish procedures for the modification of contracts pursuant to this Act in the Federal Register within thirty days after the date of enactment of this Act.

Sec. 4. The authority granted pursuant to this Act shall expire one year after the date of enactment of this Act.

Mr. **Weaver**. A year ago, the timber industry first presented me with the proposal to terminate, without prejudice, high-priced timber sales.

My first reaction was disbelief that they actually were considering the idea seriously. After all, a contract is a contract, and these firms signed them with their eyes wide open.

Faced with a deteriorating housing market and numerous firms holding unrealistically high-priced Federal timber sales contracts, however, it became apparent to me that such an unusual action was urgently necessary.

Initially, it was surprising that the bill the timber industry was using for its proposal was signed into law in 1935—in the midst of the depression. But, in fact, the Oregon economy—at least its timber economy—was going into a depression at that time.

This depression has only grown more severe with the almost total collapse of the housing markets. Most analysts argue that it will be a long time—2 to 3 years—before the housing market recovers.

And few assume it will approach the level of starts experienced in the late 1970's, the time during which most of these high-priced contracts were acquired.

The President's veto of the housing stimulus bill destroyed the last ray of hope for a recovery for housing—and with it any chance for a swift recovery for Oregon's timber industry.

Oregon's economy was in terrible shape last year, when this subcommittee held hearings on the Forest Service's newly announced policy on timber sales extensions.

Even though I am opposed to blanket extensions, faced with the limited range of options available to him, Assistant Secretary Crowell's extension policy was difficult to fault at that time.

It was obvious something had to be done to help Oregon's timber economy—to help the workers and counties dependent upon the industry's stable operation.

At that time, Congressman Les AuCoin and I introduced legislation, similar to the 1935 bill, that would allow for the termination of expensive contracts.

This subcommittee held two very productive hearings on these bills last December.

I remember meeting with the Northwest timber industry prior to the hearings. Along with the urgent need for this legislation, they pressed me to keep it simple. We don't need a Christmas tree.

I agree with that, I still agree with that.

I also know that as a builder for many years that when two parties find it to their mutual benefit, the modification of a contract is not a bailout, a giveaway or anything else.

It is a way to keep local and national economies solvent, stable, and going.

That is how I treat this situation today, a modification of a contract, a contract that is not to the benefit of either party, the Government or the timber contract purchasers.

Much has happened since those hearings. In the Northwest and elsewhere, the timber industry is in serious financial trouble. We are in the midst of a timber economy depression. Many good, efficient mills are facing the prospect of permanent closure.

Many of my constituents are facing long-term unemployment. Small communities are becoming ghost towns as their citizens migrate to Texas or California looking for work.

County governments, called upon to provide even more services in this time of need, are instead cutting back on services and employees because of shrinking timber receipt revenues.

Most of us will agree it has become readily apparent that simply extending contracts will not ease the crisis that forestry workers, the timber industry, county governments, and timber-based economies face.

The timber industry—and I praise their diligent efforts--had done its best to create a legislative solution that would be acceptable to all parties and regions.

In addition, Senators Hatfield and McClure are to be applauded for their efforts to effect this industrywide solution.

However, the private negotiations undertaken to achieve this consensus ultimately stalled. The timber economy, on the other hand, has not only stalled, it has gotten worse.

Therefore, I am glad to know that the industry is continuing its efforts to find a consensus even as these hearings are underway.

I welcome Senator Hatfield's fresh approach with his introduction of S. 2805, the Senate companion to H.R. 6913, the bill we are considering today.

Congressman AuCoin and I introduced H.R. 6913 in order to complement the Senator's works, and to make sure the momentum generated by earlier efforts was not lost. It is my hope that these hearings will provide the public and the industry an opportunity for a complete airing of all the issues.

I understand also that a similar bill will soon be introduced in the House by other Members from the Northwest. We will hear from the sponsors of that legislation tomorrow.

Throughout the development of this issue, my primary concern has been for jobs for those in the wood products and related industries. I believe legislation is absolutely essential to stop the continued erosion of our labor force, due to the inability of much of the industry to harvest and market the high-priced timber it has under contracts. Further, I believe it is essential that a steady flow of revenues to the counties be maintained.

Understandably, counties are extremely concerned by the likelihood that the revenues they have been counting on will not be forthcoming. However, reduced revenues are obviously better than none at all.

The Forest Service has estimated that over 10 billion board feet of timber—one-third of the amount under contract nationwide—is not profitable to harvest under today's market conditions. This means that many companies will be forced to default, rather than cut this timber at a substantial loss. Little of the counties expected revenues will be readily recoverable in the case of widespread defaults.

Finally, it is essential that the timber industry survive this housing depression. I believe it is in the national interest that a viable timber industry be available to provide the forest products to fill our housing needs.

If predicted widespread bankruptcies occur in the timber industry, lack of mill capacity and lack of competition will make future housing even more expensive, thus further hampering its recovery.

Indeed, it would mean enormous losses and this means many companies will be forced to default rather than cut the timber at substantial loss.

It is, of course, also very much in Oregon's and the Northwest's interest to keep our mills in business. Any truly excess mill capacity in the region has long since been squeezed out of operation by market forces.

Mills that are currently or on the verge of closing are the heart and sinew of the industry in Oregon. Without them, our natural resource-based economy will be crippled for a long time.

I have always believed that the wisest policy under which we should manage our timber was one of steady, consistent and sustainable production.

Such a policy will result in a stable work force and stable communities, predictable county revenues and an efficient and balanced wood products milling capacity.

The cyclical nature of the housing markets, however works against this happy scenario, and against proper and economical forest management as well.

Our economy is now well into the bust portion of a boom-bust situation. Members of Congress and local political leaders have a responsibility to help pull us out of this desperate situation.

I believe that the Senate and House hearings on this bill will help forge a consensus among all interested parties as to the fairest way to accomplish this goal.

I will continue to work with my House colleagues and Senator Hatfield to seek an expeditious resolution of this issue.

Senator Hatfield is the leader in this. I am here to cooperate fully with Senator Hatfield in every way as he seeks, with my cooperation and the cooperation of others, together with the timber industry and other interested parties, a resolution of this issue.

Are there other Members who wish to make opening statements?

The gentleman from Texas, the chairman of the full Agriculture Committee, Congressman de la Garza, is here with us today.

We are particularly appreciative that such a distinguished Member would join us. Do you have an opening statement?

Mr. de la Garza. No, thank you, Mr. Chairman.

Mr. Weaver. Does the gentleman from New Mexico have an opening statement?

Mr. Skeen. Mr. Chairman, I have no opening statement as such. I want to commend you on your statement and the reasons for having this hearing, and I want to ask unanimous consent that a statement by Mr. Marlenee be entered into the record. He was detained at the Interior Committee where he has a bill.

Mr Weaver. Without objection, so ordered.

[The prepared statement of Mr. Marlenee follows:]

Prepared Statement of Hon. Ron Marlenee, a Representative in Congress From the State of Montana

Mr Chairman, it is important that the Forests Subcommittee review the current economic situation in the timber industry, and the issue of contract termination in particular. I look forward to reviewing the statements presented to the subcommittee during the next few days of hearings and working with you on this issue.

There is no doubt that the timber industry is in financial doldrums. I trust that today's hearings will provide a framework on which Congress can build to address the needs of the industry. I am concerned that the legislation before us does not take into account changes needed in the purchaser road credit program. This issue is of particular concern to the people of the Rocky Mountain region and I hope that the issue will be thoroughly discussed during the hearing. If the Rocky Mountain region is to stay competitive, some alterations in the program need to be made. The issue of competitiveness in the lumber market will no doubt be discussed at length. We must structure any legislation dealing with contract terminations to assure that the normal market share of a region is not distorted by such legislative action.

Mr. Chairman, I look forward to an excellent hearing and helpful suggestions on how we might approach this difficult problem.

Mr. **Weaver**. The Chair will call the first panel, Mr. Lynn Newbry, Medford Corp.; John Davis, Willamette Industries; and Mr. Fred Sohn, Sun Studs.

Gentlemen, the rules of the committee are that each witness has 5 minutes to present his testimony.

If your testimony is longer than that in written form, I would appreciate your summarizing it. However, where extremely important information needs to be forthcoming, I will stretch that rule where necessary.

Would you proceed, please.

Mr. **Sohn**. Mr. Chairman, and members of the committee, my name is Fred Sohn, I am president and founder of Sun Studs in Roseburg, Oreg., a small forest products company.

Before starting with my presentation, I would like to insert into the record on behalf of this panel, "Support of Timber Industry Proposal for Modification of Federal Timber Sale Contracts."

This is a comprehensive statement of the industry's problem and its proposal for dealing with the problem.

The statement is in the name of seven industry associations located in the West and reflects near consensus achieved by the industry.

Mr. **Weaver**. Thank you. I have read it and I commend the industry for it, and without objection, it will be placed in the record.

[The statement appears at the conclusion of the hearing.]

STATEMENT OF FRED SOHN, PRESIDENT, SUN STUDS, INC., ROSEBURG, OREG.

Mr. **Sohn**. I started our company in 1947 and it has been continuously running since that date. We are considered a high-technology company and efficient converters of timber into lumber and veneer.

During normal times, we are employing over 400 people. Today, only 300 are on the payroll. For the past 9 months, we have been working week-to-week totally frustrated by the weakest lumber market in our history.

Unfortunately for us and our employees, there is nothing on the horizon to indicate that this situation will improve.

The community in which we live is a very small town in western Oregon. The local economy is principally by the timber industry; 83 percent of total manufacturing employment and 90 percent of the total manufacturing payroll comes from the timber industry. Most mills are small, independently owned.

For the past 2½ years, these mills have been operating at 50 percent of normal. Unemployment has stayed at 22 percent or higher and those who are working are taking home half of their normal paycheck.

Individual and small bankruptcies are running at record levels. In 1979, Douglas County records showed 128 bankruptcies, in 1980, 189, in 1981, 250. The drama of what is happening to our community could not be better illustrated.

Many of the small businessmen in our town are just barely hanging on. People are leaving this area in large numbers.

So far in 1982, Douglas County has experienced a net loss of 2,500 people.

Any worsening of our present economic activity will affect the complexion of our community permanently.

Our company's financial position is certainly affected by the extreme downturn of our economy and of our industry. It is deteriorating rapidly because of the recession in the industry, which has been going on for 3 years.

Our company's current losses are running extremely high. Each month, more companies lose a quarter to a half million dollars.

These losses can only be reduced if current timber sale programs are managed and balanced with current market conditions.

Most companies, including ourselves, have been cleaning up high-priced timber inventories. These losses certainly have depleted our cash reserve.

I am enclosing also a performance statement which will indicate the magnitude of the contingent liabilities we face for the time of liquidating these high-priced sales and they are twice as much as the net worth of our company.

With no contract relief in sight, the only alternative left will be to default the timber sale contracts. However, we share many thoughtful people's alarm at the prospect of massive defaults on Federal timber sale contracts and expectation of fighting a long legal battle with the Federal Government over damages. Unfortunately, this possibility is more and more real as we look ahead at the few opportunities of moving this high-priced timber into a very limited marketplace.

The massive asset depletion our company would undergo if we were forced to operate the sales we now have under contract would quickly make us insolvent.

Our example is not unique. Most of the independents with whom we are familiar are in similar situations. Most distressing is the fact that Federal Government policies are responsible for us being in this situation.

It is important to realize that relief from high-priced public timber sale contracts will not allow purchasers of public timber to displace production elsewhere, but will simply let the western industry maintain its reduced share until the end product markets improve substantially.

The objective of relief should be to maintain a viable western timber industry with the capacity to help meet the needs of a housing and wood products market recovery several years from now.

The relief program should apply to all Federal timber; national forests, Bureau of Land Management and other agencies. It should not be at the expense of local governments and should result in maximum possible returns for the agencies involved, given the poor market conditions that exist.

I believe the simplest, most equitable approach to the timber inventory problem is a no-fault turnback of contracts to the selling agencies.

This procedure would allow companies such as ours to get out from under the tremendous burden which we now carry. We can then concentrate on keeping our plants operating and our people employed.

This could be the beginning of building up a timber reserve to make our public timber sales policies more responsive to market demands. Later, as markets improve with the general economy, this timber could be resold and used to help stabilize prices so that consumers would be assured of affordable building materials in the future. Many details such as partially completed contracts and partially constructed roads can be handled by the governing agency.

It is also important to realize that our government will receive its assets back whole and intact and many times in an improved fashion. The industry will receive no moneys or credit, but will pay the highest price possible for its replacement in bidding competitively for new timber sales.

This is certainly not a subsidy. This method will make it possible to adjust the volume under contract to current market conditions in an orderly fashion.

Defaults can only upset all of our markets, because of the requirements for immediate resale of this volume. It would force the largest quantity of distressed timber on the market at a distressed price with the purchaser and the Government being the losers.

Simply adding extra time to timber sale contracts would, by itself, not solve the problem. Because of the large volumes and there very high prices, these timber sales could not be worked in before the early 1990's, a time frame unacceptable to the agencies and the industry. Contract term adjustment alone is no solution.

Adding extra time, however, to timber sale contracts as part of a general relief package is very logical and needed. The higher the terminated volume, the less time needs to be added to the remaining contracts.

This extra time will allow companies to mix in the remaining high-priced sales with current purchases as demand for finished products improves.

This approach of contract price modification has been adopted by the State of Oregon for Board of Forestry timber and it has been proposed as a solution by the Bureau of Land Management.

The rollback of prices is tied to a deadline for removal which forces wood into a very weak market and will result in further price weakening in lumber and plywood.

The resulting oversupply of the market would further be compounded by the Federal agencies' present policies of selling public timber.

A perfect example of the present oversupply of the market and its effect on prices is occurring right now. Since March just 4 months ago, our major product prices have dropped 36 percent. This tremendous drop has been caused principally by current short-term timber sale policies. Rollback would only add to this problem.

This proposal may be workable for partially operated timber sales which could not be terminated. As with extra contract time, rollback may have a place in the relief package, but it cannot be the main solution.

I would like to take a minute to explain Sun Studs' position on this matter. In today's market, over 60 percent of our company's timber inventory would convert to losses exceeding $200 per thousand board feet or $20 million on an annual basis. Another 23 percent would convert to losses of $100 per thousand board feet or more.

The other 17 percent of our inventory can be converted at a breakeven today if our markets deteriorate no further.

These statistics graphically demonstrate the magnitude of the problem we face. Simply adding extensions of contract time to these timber sales will not solve the problem.

Rollback of prices with harvesting deadlines would certainly reduce the potential losses, but the effect of forcing more wood on this market will only drive finished product prices lower and further aggravate the situation.

No-fault turnback appears to us to be the best possible solution.

If we are to survive, we need to return to the selling agency at least 60 percent of our contracted volume. Another 23 percent of the contracts will need at least 5 years' added contract time to fit them into the limited marketplace.

Price rollback could logically be applied to those contracts which have been partially logged. The above scenario would allow us to work out from under the burden we now have.

Anything much less than this amount of relief would leave us no choice but to default a major part of our Federal contracts.

We honestly believe that prompt and decisive action is needed to avert the impending crisis. Whatever course is chosen, we must be sure that it provides the necessary relief so that action further down the road will not be needed.

Attachment B is background information explaining in more detail our public timber problem, how and why the problem developed and analysis of solutions.

[The attachments appear at the conclusion of the hearing immediately following the timber industry proposal.]

Mr. WEAVER. Thank you very much for an excellent statement. I want to go to the other panelists immediately, but I think it is important to note that at the start of this hearing, Mr. Sohn, that you operate one of the most efficient, well-capitalized, with the best equipment, and one of the best organized and managed mills in the country, so this is not an issue where the sloppy and inefficient are going out, but this is going to the very heart of the well-operated timber industry and you exemplify that very well.

I want to thank you very much for appearing.

Will the next witness continue, please.

STATEMENT OF LYNN NEWBRY, VICE PRESIDENT, MEDFORD CORP., MEDFORD, OREG.

Mr. NEWBRY. Congressman Weaver, members of the committee, I am Lynn Newbry, I am a vice president of Medford Corp. and am presenting this statement on behalf of our company.

Before I begin, Congressman Weaver, I would like to compliment you on your early recognition of our problem. I think you were one of the first in the Congress to do that and I want to express our appreciation to your continued interest in a problem that has been extremely vexing to all of us.

The Medford Corp. is a large company by SBA standards, but a relatively small company by any other measurement. We are tree farmers in a modest way and manufacture lumber, plywood, medium-density fiberboard, pulp chips, and kitchen cabinets. With the exception of pulp chips, we are inextricably tied to the housing market.

Medford Corp. is in total and unequivocal support of the position of the forest products industry with respect to contract renegotiation as outlined by prior speakers.

We were involved intimately in negotiation of this agreement and support it fully. We believe the industry position requesting the termination of certain contracts, extension of others, and modification of road credits in existing contracts represents a general consensus within the industry and is as fair to all parties—including the Federal Government—as can be achieved.

As previous speakers have pointed out, the forest products industry and the people working in it are suffering the most prolonged and deepest recession since the Great Depression. There is no question but what some kind of contract modification legislation is essential to the economic well-being, perhaps even survival, of many companies holding timber purchase contracts with the U.S. Government.

Previous testimony has covered the need for legislation to resolve this economic problem so I will not pursue the matter further except to say that our company finds itself in virtually the same position as any other wood products company dependent upon public timber for raw material.

I think the need for this legislation is well understood by almost everyone.

So I will discuss something that you discussed, Mr. Chairman, in your opening remarks, but I think it needs elaboration.

There have been allegations in the press and elsewhere that this industry is asking for special consideration, that we are asking for a Chrysler-type bailout or extraordinary windfalls from the Public Treasury. These allegations have no basis in fact and represent a complete misunderstanding of the situation and the purpose of this legislation.

The forest products industry is not here, hat in hand, asking for any bailout whatsoever. We are not asking for any subsidy. We are not asking you to open up the public purse nor are we asking you to sell us Government timber at prices below its value.

The simple facts are that we are parties to contracts—as you pointed out—to purchase timber from the U.S. Government that cannot be fulfilled under current economic conditions which are far beyond our control and certainly not of our making.

In the usual course of business, when one party to a contract is unable to fulfill that contract, for reasons beyond his control, the parties attempt to work out an arrangement whereby the contract is amicably terminated or modified to the mutual benefit of both parties.

This is all we are asking for in your legislation.

I am reminded of a similar situation in our own company. Medford Corp. does not haul its own logs. We contract for log hauling with independent truckers.

When the price of diesel fuel suddenly jumped from 29 to 75 cents per gallon, these operators told us they just couldn't haul for the prices agreed upon in the contract.

Our company did not insist that they "eat" these contracts, forcing them into serious financial difficulty, we renegotiated.

Even though it increased our costs and reduced our profitability, it was important to our company to keep these contractors financially alive and healthy.

It seems to me that the situation under discussion today is similar to the plight of these log haulers in every respect, and explains the policy decision facing this committee.

These contracts between the individual members of the industry and the Federal agencies were entered into in good faith, based upon the circumstances that existed at the time.

We were in a period of double-digit inflation, demand was strong for the finished product, there was demographic information coming from the Federal Government indicating a need for 2 million housing starts per year during the decade of the 1980's.

At the same time, public policies affecting the land base and the allowable cut created great concern within the industry about a diminishing supply of timber.

These circumstances have changed completely, as you know. Deflation has replaced inflation in our industry. Mortgage money for housing, if available at all, is priced out of range of the home buyer.

The forest products, homebuilding, and remodeling industries are at a virtual standstill, and demand for our products has diminished accordingly.

The conditions that existed at the time these timber contracts were awarded, no longer exist. The sad fact is that these contracts cannot be fulfilled without catastrophic losses to the purchasers.

On the other hand, the termination or extension does not have a severe impact on the U.S. Treasury. The contracts that would be terminated under our proposal would be on sales where no timber has been removed; thus, no loss of property to the Government.

It might appear that a loss occurs when comparing the bid price with the appraisal, but this difference actually represents the profit to the Treasury which some might characterize as windfall profits, considering the fact that the bid prices are three to five times the Government's original appraisal of value.

This reduction of profit from these sales is far different from the severe operating losses being suffered by your customers, the forest products industry.

The extension of contracts requested in this legislation only delays the day of fulfillment and the corresponding delay in cash flow to the Treasury.

When viewed in this context, this legislative authority would result in no real financial loss to the Government, but merely a recognition by this Congress that circumstances have changed and public policy must reflect these changes.

With all this in mind, the real policy decision facing this committee is the question of whether the Government is going to insist on enforcing timber purchase contracts with bid prices far above current values, at the expense of the financial well-being of its best customers, or is the Government willing to modify or terminate these contracts consistent with good business practices to maintain the economic viability, and surely in some cases, the very survival, of the forest products industry, with little impact on the Treasury.

In the long run, it would seem this latter course would best serve the public interest by maintaining the productive capacity of the industry and the highest level of employment for the people who work in it—productive capacity and know-how, essential to meet the growing, pentup demand among millions of young people dreaming the great American dream of homeownership.

This demand will surely come when mortgage interest rates become affordable.

If there are any questions, I would be happy to respond.

Mr. **WEAVER**. Thank you very much, Mr. Newbry, for a good statement.

Mr. Davis.

STATEMENT OF JOHN W. DAVIS, GENERAL MANAGER, WESTERN TIMBER AND LOGGING, WILLAMETTE INDUSTRIES, INC., PORTLAND, OREG.

Mr. **DAVIS**. Congressman Weaver, members of the committee, my name is John Davis, general manager of western timber and logging operations for Willamette Industries of Portland, Oreg.

Our firm is a medium-sized forest products company with plywood plants and sawmills located in several small communities in northwestern Oregon, northern Louisiana, and southern Arkansas. We are also manufacturers of pulp and paper, corrugated containers, grocery bags, business forms, and folding cartons for food products. Plants manufacturing these products are located in 13 States across the country. In all, we have 56 plants employing approximately 8,500 persons.

We, too, helped draft and do support the white paper that Mr. Sohn submitted earlier. It outlines a position of consensus of the industry on this issue.

As pointed out in the white paper, our problem revolves around the price of our basic raw material—logs. In the case of our company, our logs come from a variety of sources.

My purpose in pointing out these statistics to you is to demonstrate that Willamette Industries is what is known in our trade as an integrated forest products operation. Integration, in this context, means the step-by-step processing of our basic raw material—

logs—into commodities needed and used by society. These logs are processed into plywood or lumber, and the waste from this conversion becomes the raw material for the next process—chips and shavings for paper or particleboard—and so on. We began with one small sawmill in Dallas, Oreg., in 1905 and have grown to our present size by utilizing our raw materials more efficiently than most of our competitors.

Our own lands and other private lands that we have under long-term contract provide roughly half our needs in the West.

We are able to obtain approximately 10 percent of our needs from purchases of open market logs and the remaining 40 percent of our needs come from Federal timber sale contracts purchased in open competition.

These Federal contracts are normally purchased 3 to 5 years prior to their actual harvest and that is an important consideration to keep in mind. We do not in the West buy timber sales to utilize immediately or within the very near short-term. They are a relatively long-term proposition. We have roads to construct which require sometimes 1 or 2 years to complete. We have to carry an inventory of timber sales to have a suitable mix for the varying mill requirements.

As you are aware, during the past few years, competition for the available Federal timber in Oregon became intense. It became so intense that prices contracted for reached to unheard of levels. We, nor most of the other people we know of, did not become involved in this intense bidding because we felt the inflationary spiral of the times would go on and on indefinitely and bail us out.

Rather, it was a case of buy the timber now so that we would have logs to operate with 3 to 5 years in the future. The reasons behind these high levels of timber bidding are varied, but the prime force was the U.S. Government itself. High inflation was a fact of life.

Government economists predicted moderate mortgage interest rates and a housing boom in the decade of the 1980's. Since Government itself controlled the amount of timber put up for sale each year and gave no sign it planned to increase the timber sale volume to match its predictions for increased demand for lumber and plywood, the result was to drive the prices bid to unrealistically high levels.

Now that same Government has reversed its own policies concerning inflation, mortgage rates, and its bias for housing.

We now find ourselves in a period of declining inflation, extraordinarily high interest rates, and a relegation of housing to a low position on the national list of priorities.

This reordering of national priorities has left our industry—and especially the western industry—holding the bag that the Government helped us fashion.

That bag is now overflowing with timber sale contracts too expensive to operate now or in the near future.

If no relief from these unrealistic contracts is forthcoming, massive contract defaults will be the result. Such defaults will have a devastating effect on many communities in the West. Local governments such as our cities, counties, and school districts will be subjected to economic havoc unparalleled since the depression.

There is no question that some sort of relief from the most onerous of these contracts will not only help the companies involved, but also the citizens of our timber-dependent communities and all levels of government.

The relief our industry asks for is not a bailout as it has been characterized by some. We are asking for our contracts with the Government to be modified to compensate for changing conditions that the Government brought about.

Such contract changes are not unique in business, nor are they unheard of in government. Long-term procurement contracts often are modified when unexpected conditions arise.

It is in the best interest of both parties to these contracts to see orderly modification of the terms rather than plunge all affected parties into the chaos that will surely ensue if no changes are made.

The questions that you gentlemen are considering here today are: "What kind of relief is appropriate? What kind of relief will save this industry and these communities and yet be equitable to all concerned?"

I am here to recommend that the relief legislation considered contain the following elements. There should be a clause with respect to termination of contracts.

Termination of an appropriate volume of timber under contract would provide immediate relief for all concerned parties. This would allow the companies terminating such contracts to purchase lower priced sales currently on the market and immediately begin harvesting and milling operations, thus maintaining employment and continuing a flow of revenue to the treasuries of the United States and the various counties involved.

We feel that an appropriate level of terminations that should be allowed is 40 percent of the total volume of Forest Service and Bureau of Land Management timber under contract on January 1 of this year.

I might say that that 40 percent was not a number fixed on stone tablets. It was a number agreed to by the industry and it was felt that, on balance, 40 percent provided the right relief for the most number of people.

Another item we should consider is an extension of the contract terms.

Coupled with the 40-percent terminations should be a 5-year extension of the time limit on all contracts not terminated. For the average western operator, 5 years additional time to harvest the remaining timber under contract will be necessary to work off that volume of high-priced timber.

Such a contract term adjustment should have requirements for periodic payments on the contracts or other incentives to insure the orderly removal of timber in this category. However, these payments or incentives should be structured in a manner that will not force wood on a market that cannot accept it because of poor market conditions.

Should legislation containing these elements be enacted into law, it is imperative that the Forest Service and Bureau of Land Management use caution in setting sales levels in the West.

Although long-term demand for building materials is expected to rebound in the coming years and perhaps increase to levels we have not yet experienced, caution should be used by these agencies to meter in their planned timber sales so as not to flood the market with low-priced wood during a period of low market demand, therefore disrupting the normal marketing patterns that our industry has developed over the years.

In conclusion, I would like to emphasize a few points. First, the western forest products industry and the communities dependent upon that industry find themselves in an unprecedented position with vast volumes of Federal timber under contract at price much to high to operate.

They have been put in this position principally by actions or inactions of the Federal Government. Failure to grant suitable relief to this industry will result in massive defaults on timber sale contracts and the ultimate bankruptcy of many companies.

These defaults and bankruptcies will destroy the economic base of many, many communities throughout the Western United States. This gloomy scenario does not have to occur if the Government will right this wrong with a suitable relief package.

Thank you.

Mr. WEAVER. Thank you very much, Mr. Davis.

As always happens in the Congress, you have two things at once. This is, of course, the most important thing I have, but I have a bill that I have shepherded through the subcommittee and full committee that is on the floor at this very moment.

I simply have to go over there for a few moments. Could you stay for another half hour and then I will call the next panel and then ask you back for questions after that, if that might be the case. Congressman Huckaby, who is one of the distinguished members of this subcommittee, will chair the next panel.

We will call Mr. Ehinger, Mr. Emmerson, and Mr. Bendix to the witness table.

STATEMENT OF PAUL F. EHINGER, EXECUTIVE VICE PRESIDENT, WESTERN RESOURCE ALLIANCE, EUGENE, OREG.

Mr. EHINGER. Good morning. I am Paul Ehinger, executive vice president of the Western Resource Alliance, a group of mills and operators in Western United States who are primarily dependent on public timber for their raw materials for the mills.

The purpose and thrust of my testimony is on the magnitude of the problem to show you the difficulty which confronts us.

Most people have characterized the problem of the industry as injury or hurt. Injury and hurt is what has gone on for the past 2½ years and we are in an effort now to maintain a level of survival. In so doing, we have to address ourselves to the public timber supply.

The figures which are in front of us show that it is very obvious that if nothing is done, there will be widespread bankruptcies and serious problems for the communities, the county governments and all other people involved in the western timber industry, which, as you know, is so dominant in the West as a part of the basic economy.

I have in the testimony I have submitted a series of tables that I would briefly explain in what we are showing. Tables 1 and 2 basically show the decline of the market over the last 5 years.

We are not only experiencing serious declines in the market on an annualized basis, but in 1982 and as of this moment, we are continuing to experience declines with little hope of any upward movement.

The western industry has experienced a 16-percent additional loss in its markets over last year. That in itself is creating serious problems.

Table 3 is there to show you that even though we have had the annualized declines, we have continued to suffer major declines on an ongoing basis this year.

For example, a producer in the months of March to May experienced a $6 drop in the price of veneer in the marketplace.

That appears to be nominal, but when you translate our measure of veneer back to the measure of the log in the standing tree, it means his ability to buy standing timber dropped between $75 and $90 a thousand.

That is a major decline. At the turn of the year, we thought we were at the bottom, but little did we know how far the bottom was down. We are not sure that we are there yet.

I have called attention to the fact that in the West, particularly our markets for chips with the pulp and paper industry, are getting in sad shape.

The pulp and paper industry, because of its problems, has recently cut the deliveries of producers of lumber and plywood and their residues to the plants, anywhere from 20 to 50 percent.

That means the operator of a plant will lose an additional $5 to $10 a thousand, which he would ordinarily recoup in residues.

This further increases the plight of the producer in the West.

Table 4 shows the bidding pattern in relation to the product price pattern. Now, obviously one of the statements being made is that we have gone through some bizarre bidding patterns.

I submit to you that at the beginning of the 1970's when the inflationary trends began to go at 10 or 15 percent, all bidding at that time was considered bizarre.

We soon found out that if a person bid attractive timber and held it 3 or 4 years, the normal life of a sale, no matter how ridiculous his bid seemed at the time, that he was eventually finding the market meeting the price of the timber.

When we got to the period of 1980 and early 1981, the economic forecasts were predicting a rate of inflation for our products equal to what we had experienced in the past.

The fact of the matter is, the decade of the 1980's was predicted to be the golden years of housing and would have been for our industry, too.

The graph on table 4 looks rather ridiculous the way it is. You say how did we bid? I submit to you in the spring of 1981, Data Resources in Lexington, Mass., predicted today we would sell 2 by 4's, $390 a thousand, kiln-dried, Douglas-fir.

That would fit well on the graph. The problem is we are selling them for $160 a thousand.

So the magnitude of the change, the lack of anyone's ability to forecast what was happening is basically how we ended up in this dilemma.

The final chart deals with the potential losses as quantified by individual operators for a segment of the timber under contract. That graph relates the volume of timber under contract of the three largest timber national forests in western Oregon.

This represents half the Government timber in western Oregon and I submit to you the other half would follow closely along that line.

What we are dealing with here is if operators were to put those logs into the market today, based on a survey of log prices made just this last week in the western Oregon area, they would receive approximately $220 a thousand for all the logs delivered.

The loss entailed because the cost of those by virtue of the high stumpage bids would be $475, they will experience probably a $255-a-thousand loss.

In other words, the loss per unit is going to exceed the price which they will get in the marketplace.

Therefore, it is easy to see that no one can move these sales into the marketplace; simply the dollars and cents will not come out with that major discrepancy.

As you can see, too, losses by individual operators on the timber supply under contract which range anywhere from a few months to a couple of years, will range from $300,000 or $400,000 for an individual logger all the way up to $80 million for producers who have significant volumes under contract.

I mentioned the fact again that this is only a portion of the timber that many of these operators have under contract and the losses will be more severe for many of them.

It is just a catastrophic situation that needs major attention by this Congress.

Thank you.

[The prepared statement of Mr. Ehinger appears at the conclusion of the hearing.]

Mr. HUCKABY. Thank you, Mr. Ehinger.

Next we have Mr. Emmerson. I understand he is a constituent of my good friend and colleague Congressman Clausen from California, who is the ranking member on the Public Works Committee, as well as the Interior Committee.

I would like to recognize the gentleman from California.

Mr. CLAUSEN. Thank you very much, Mr. Chairman. I not only want to welcome my constituent, Red Emmerson, who has been a longtime friend and highly respected operator in northern California, but the other witnesses appearing before the committee today.

Just as an aside, Mr. Chairman, you and I both serve on these key committees, both on Agriculture as well as Interior, and I will just make an observation at this time that we may well want to give serious thought to working out a transfer of the hearing record information being developed here over to our own Interior Committee to maybe save time.

I want to work with you and other Members of the leadership because we are literally on both committees, and I think we can save time in incorporating the material here into the record of the Interior Committee.

Mr. HUCKABY. I think that is an excellent suggestion because we quite often run into problems of overlapping responsibilities and jurisdictions among committees and the Interior Committee does have some jurisdiction in this area, also. I think it would be prudent and I would recommend to the chairman that we carry out that suggestion.

Mr. CLAUSEN. Thank you.

Mr. HUCKABY. Mr. Emmerson.

STATEMENT OF A. A. EMMERSON, PRESIDENT, SIERRA PACIFIC INDUSTRIES, ARCATA, CALIF.

Mr. EMMERSON. I am A. A. Emmerson, president of Sierra Pacific Industries. We have eight modern sawmills and two millwork plants in California. They have been very dependent on national forest timber.

They commonly are the biggest employer in local communities. Unfortunately, two of them are not running at this time because of the severely reduced demand for their products. Under normal conditions we have 1,500 employees and process 450 million board feet of timber per year.

We have, however, been using more of our milling capacity than most Western lumber companies. We have been trying to meet our obligations to harvest timber under Forest Service contracts.

Although we feel we are more efficient than the average, we cannot hope to run at full capacity and pay stumpage rates established when there were general expectations of a continued high demand for lumber. Something has to give.

There is not sufficient demand to permit timely completion of many timber sale contracts. In some cases, stumpage rates alone exceed the price to be received for the lumber. There is nothing left to meet logging and milling costs under some of these contracts.

The high-stumpage rates resulted from competition for artificially short supplies of timber at a time of high demand. The Government has not offered for sale all the timber that would be appropriately sold according to management plans. Shortages have resulted from wilderness controversies and the taking of private forests for the Redwood National Park.

Harvesting of some of the high-priced timber sales was delayed in California, because of the emergency salvage of nearly 2-billion board feet of timber killed by drought or fires. For the uncompleted contracts, costs continued to rise as lumber prices dropped.

When lumber markets began to deteriorate in 1979, we anticipated the usual short-cycle and a renewal of markets within 6 to 12 months. That did not occur. In a March 23, 1982 report, "Forest Service Timber Sale Contract Situation," the Forest Service said:

> The economic climate has changed significantly and so has the timber producers' situation. Many have high priced National Forest timber sales under contract. The prices were bid competitively during economic times that were entirely different from the current climate. These National Forest timber purchasers are caught in a squeeze from which there seems no relief. Costs keep increasing and markets have evaporated * * *

> The details of the situation facing the individual timber producers are largely unknown * * * there are apparently National Forest timber sales so high * * * they could not profitably be harvested, even under the best markets ever experienced.

Because of the unknowns in this severe situation, George A. Craig, a registered professional forester, was asked to review existing timber sales in California. The results showed that the timber industry was in the worst economic situation since before World War II and that our difficulty was greater than the Forest Service or many timber operators had realized. A copy of this two-part study is being submitted with my written statement, and I respectfully request that they be entered into the record. I would like to highlight the results of that indepth study for you.

The review included 366 contracts which covered 3.7-billion board feet, 60 percent of the uncut Forest Service timber under contract in California. About 40 mills and 20 different purchasers were involved in the study. Forest Service officials have agreed that the study procedures and results are valid. Those results are significant. The analysis used Forest Service timber appraisal data collected from timber purchasers' records.

Not one of the 366 contracts reviewed had an opportunity for the operator of average efficiency to break-even in the first quarter of 1982. The "best" contract had only 2,867 thousand board feet remaining and a deficit of $1.36 per thousand board feet. For all of the contracts, average operating costs per thousand board feet were $295 and stumpage charges were $222 for a total cost of $517 per thousand board feet. The expected product price was only $281 a thousand, a loss of $236 a thousand.

The study also indicated that sales bid in 1976 and 1977 ". . . are beyond reach for any hoped-for market recovery for the operator of average efficiency."

The drop in market value was also demonstrated by the fact that while the average stumpage price for existing timber sales sampled was $222 per thousand board feet, a sample of sales sold in California during the first quarter of 1982 indicated the average stumpage price had dropped to near $67 per thousand board feet.

I have attempted to relate some of the facts that indicate that the need for timber sale contract relief is real and that it is severe. More details can be obtained on the California situation through review of George Craig's study.

The desperate situation can best be minimized by continuing a reasonable Federal timber sale program, permitting the termination of some or all of the existing timber sale contracts, providing for contract term adjustments for the sales bid prior to January 1, 1982, and implementing changes in accounting for purchaser credit. There are hundreds of thousands of dollars tied up in unusable purchaser credit for which the Government has received value, but for which timber purchasers will not be compensated unless there is corrective legislation.

Without such action, there can be only more problems for both the Government and industry—with more business failures, more unemployment, and reduced income to the local and Federal governments.

We have a strong personal interest in the welfare of several timber communities in California. Ours is a family owned business, started by my father at the end of World War II. One of my sons manages one of the millwork plants. All of our managers live in and are part of the local communities, where the mills are situated. My other son is studying to become a CPA and plans to work with the firm. We hope to continue to be important contributors to the communities in which we live.

In order to achieve that goal, there must be a continuing supply of national forest timber offered under reasonable terms. Even if the proposed relief is provided to current contract holders, we only can work our way out of the remaining difficulties by having more timber available at current fair market value.

This concludes my statement. I appeciate your attention and will be pleased to respond to questions.

I have received a copy of a letter mailed to Senator Cranston from one of the northern California lumber producers, which indicates they stand to lose $72 million. Since this has been made a matter of record I would like to submit it to you people also to make it a matter of record.

Mr. CLAUSEN. I wonder if I could ask unanimous consent that it could be incorporated in the record as an addendum to the gentleman's testimony.

[The letter referred to follows:]

Big Flat Timber Company
1607 Fifth Street
Crescent City, California 95531

August 10, 1982

RECEIVED
AUG 12 1982
Western Timber Association

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The Honorable Senator Allan Cranston
299 Senate Office Building
Washington, D.C. 20510

Dear Senator Cranston:

The West Coast Logging and Sawmill industry is suffering the most severe economic beating in memory. Bill Peepe and myself have pledged every asset we have accumulated over the past thirty six years with the hope that our business and its employees would survive.

We were forced to close our Crescent City mill which was the largest employer in town primarily because of todays lumber market which would not support the price we would be required to pay the U.S. Forest Service for our timber contracts.

The high cost of U.S. Forest Service timber sales held by the industry has contributed to the housing depression on the west coast. It has opened the west coast market to the subsidized Canadian timber. It is the primary cause of the extraordinary unemployment in our area.

If Bill and I were to honor our timber contracts at todays lumber prices our losses would exceed $72,000,000.00. That would be seventy two million dollars we do not have, as we have sustained horrible losses over the past three years due to the declining lumber market, our attempt to maintain our employees until the market recovered, and because we did honor our log commitments beyond our capacity to do so.

The blame for the current depressed condition of the West Coast Logging and Sawmill Industry belongs to everyone. Bill and I acknowledge our share and we are paying dearly for it. However, it would hardly be fair if the people of Humboldt and Del Norte Counties and other like communities in the west should bear the whole cost for the blame of the others. The inflation of the past ten years caused inflation pricing to be a prime factor in the valuation of timber for current and future harvest. Double digit inflation caused the west coast industry to factor 15% per year inflation factors into their 1981 bids to the U.S. Forest Service. The demand for government services by the people and congressional willingness to accede to those demands contributed to that condition.

Congressional removal of harvestable timber from the market with the creation of new park lands, RARE II and primative areas compounded the problem.

Large and small business believed that their investment in plant and equipment would soon be worthless if they did not have timber to harvest and process. No one dreamed that this prudent protection of jobs and assets with timber would create a more onerous risk of bankruptcy.

U.S. Forest Service auction bidding procedures exacerbated the problem. The Forest Service found greater potential revenues would be realized with competitive verbal auctions instead of sealed bids.

Finally, the Government's demand for funds to finance government programs drove interest rates to historical heights. Small business operating with borrowed money had soaring interest rates destroy profitability. Many in the logging and sawmill industry have been driven to the wall, including McNamara & Peepe Corporation (Big Flat Timber Co.).

Concurrently high interest rates contributed to the destruction of the lumber industries primary market, the housing and construction industries. Few, if any, experts see a rebound of that market in the near term.

It is essential that our partnership, Big Flat Timber Company, McNamara & Peepe Corporation, and the logging and sawmill industry have competitively priced raw material (timber) if they are to regain markets lost to foreign competition and/or if they are to contribute to the resurrection of the housing industry.

Lastly, if legislative relief is not forthcoming to relieve the burden of the high priced timber purchase obligations to the U.S. Forest Service, we shall be forced to seek the legal relief of bankruptcy proceedings.

I hope it is not the desire of Congress to eliminate small business competition or to cause the people of Del Norte and Humboldt Counties to carry the burden for the blame of others. Can you assure them and us that you will use every resource available to you to obtain for the west coast forest products industry equitable relief from the oppressive burden of the U.S. Forest Service timber sales contract? Please advise me as to what else I might do that will help you and us resolve this pressing problem. . Time is of the essence.

Sincerely yours,

BIG FLAT TIMBER COMPANY

Thomas F. McNamara

TFM:m

P.S. The enclosed schedule calculates the financial impact of the Big Flat Timber Company/U.S. Forest Service timber sales contracts were they to be executed in todays market. Unfortunately no one sees an appreciable improvement in the market for the forseeable future.

(The attachment is held in the file.)

Mr. HUCKABY. Mr. Bendix.

STATEMENT OF GERHARD BENDIX, SECRETARY-TREASURER, HI-RIDGE LUMBER CO., YREKA, CALIF.

Mr. BENDIX. Mr. Chairman, I am Gerhard Bendix, secretary-treasurer of Hi-Ridge Lumber Co., Yreka, Calif. We are a small business that has been buying and processing national forest timber for 29 years. We operate primarily in the Klamath National Forest where there has been intense competition for timber—an area where stumpage rates have increased several fold in the past 20 years.

In order to compete successfully for timber, we built a new mill in 1971. It is designed and equipped to get the most value out of a sawlog as efficiently as possible. We employ 76 people.

When many of today's timber sale contracts were signed a few years ago, neither the seller—the Forest Service—nor the buyers—mill operators dependent on national forest timber—anticipated the drastic changes in lumber demand that has made completion of the contracts economically infeasible.

If the Forest Service had not granted contract term extensions in 1980 and 1981, many purchasers would be in default today. The granting of those extensions, although necessary until Congress can develop a final solution should only be considered as temporary relief. The requirement for extension deposits and interest payments will force some purchasers to default on contracts because of the poor cash flow position that most businesses now face.

An analysis of Forest Service data by George A. Craig, registered professional forester, leaves no doubt that most of the sales purchased in California prior to the first quarter of 1981 are not operable today at a break-even point by an operator of average efficiency. Because of increasing operational costs, it is likely that they will be losers in the future under the best anticipated markets. More details of this important report will be summarized for you in subsequent hearing presentations.

Last year we had to pay $2.25 million in extension deposits. We could no longer do that. Industry representatives, with assistance from Senators Hatfield and McClure have worked diligently to develop a consensus on necessary details for timber sale contract legislation. Agreement included three major concepts:

One. There is need to permit timber sale contract termination with the resale of the timber to be financed by the original contract holder and the timber returned to the market in an orderly manner. This will permit timber to be bid at current market prices and operations to begin as markets improve. Much discussion and negotiation resulted in a termination limitation of no more than 40 percent of the timber under contract.

Two. Contract term adjustments of the remaining volume is necessary to permit a melding of the remaining timber in with the new purchases, as product values increase over the next 3 to 5 years.

I would like to stress the terminology, contract term adjustments. That is the important term.

Three. Changes in purchaser credit procedures are needed that will eliminate ineffective purchaser credit and permit the transfer between different forests and between purchasers. Cash flow of both small and large businesses are seriously restricted because of that limitation. As a condition of timber sale contracts, purchasers must build permanent roads of long-term value. In theory they are to be compensated for the cost of road construction by "Purchaser Credit" as an offset against stumpage charges. In some instances there is not enough value to meet road costs—causing "Ineffective Purchaser Credit." Under many Forest Service contracts, stumpage charges drop to some extent with reductions in lumber prices. As a consequence, there again is insufficient value in the timber to permit the full use of earned Purchaser Credit—resulting in more Ineffective Purchaser Credit.

The proposed changes in the application of purchaser credit are an important part of the overall legislative package that has been developed within the industry.

Federal timber sale programs are important to millions of Americans. The Federal Government owns over half of the softwood saw timber on commerial forest lands in the United States, and over 60 percent in California. Its policies have always been and will continue to be a major factor in the welfare of the housing and timber industries, and they are obviously important to the communities and counties that are dependent upon those industries for employment and revenue.

Here I would like to digress to read a resolution of the county board of supervisors:

> Whereas, Siskiyou County is in a severely depressed economic condition; and
>
> Whereas, one of the basic industries of the area is timber; and
>
> Whereas, the lack of economic activity has put people out of work resulting in foreclosures and family bankruptcies and has brought financial crisis upon local governments; and
>
> Whereas, if the timber purchasers are not allowed some relief from their contracts their only alternative is bankruptcy or default: Now, therefore, be it *Resolved* that the Board of Supervisors of the County of Siskiyou does hereby strongly support the U.S. Forest Service and BLM contract relief legislation now under consideration in Congress.
>
> Passed and adopted this 13th day of August, 1982, by the following vote:
>
> Ayes: Supervisors Frey, Steinhaus and Zink.
>
> Noes: None.
>
> Absent: Supervisor Mattos.
>
> Signed Mike Belcastro, Vice-Chairman of the Board of Supervisors.

These policies are established by law. It is the law that the national forests are, in part, to:

> 1. "* * * furnish a continuous supply of timber for the use and necessities of citizens of the United States." (16 U.S.C. 475) with "* * * due consideration * * *" of the relative values of various resources (16 U.S.C. 529).
>
> 2. "* * * achieve and maintain in perpetuity a high-level annual or regular periodic output of timber and other resources without impairment of the productivity of the land." (16 U.S.C. 531).
>
> 3. "* * * use all practicable means and measures * * * in a manner calculated to foster and promote the general welfare, to create and maintain conditions under which man and nature can exist in productive harmony, and fulfill the social, economic and other requirements of present and future generations of Americans." (42 U.S.C. 4331).

The May 28, 1982 report by George A. Craig, Forest Service Timber Sale Contracts In California, concludes:

> Prompt government action appears dictated when these obligations under law are considered along with the government's past contributions to the problem. A large number of inoperable timber contracts have limited time and no prospects of becoming operable. Without government action it is reasonable to expect the threat of more business failures and more injury to dependent communities will become a reality. The policy question today is to what extent the government should go in relieving timber purchasers of their obligations under these contracts. Not the least of justified options is to recognize that for various reasons the system has failed. it is time for contract cancellations without penalty and a new start, as the Congress did in 1935.

As you are aware, Public Law No. 38 of the 74th Congress authorized in the public interest the cancellation of national forest timber sale contracts without penalty, where application was made within 1 year.

We urge your consideration of that recommendation along with contract term adjustments and needed changes in purchaser credit.

Our thanks to you for the interest and time you are spending on this important issue. I will be pleased to answer questions that you may wish to ask.

Thank you.

Mr. HUCKABY. Thank you, Mr. Bendix.

The gentleman from California, Mr. Clausen.

Mr. CLAUSEN. Mr. Ehinger, the references in your testimony to the bidding being bizarre, the expression I think you used, that was taking place and that most people were familiar with, the whole bidding process out there was familiar to everybody. I think they would most of them agree with that characterization. Should there be emphasis on revising the bidding procedure itself and I guess what I am looking at is should there be a consideration given to some sort of an indexing formula as contrasted with the current procedure?

Mr. EHINGER. I think there are two or three things I might comment on: one, the Forest Service has made changes in regulations last year trying to require additional cash deposits and additional payments as the timber sale time moved forward in order to discourage people who were in it for speculative reasons or primarily speculative reasons.

Second, on all but the west side of Oregon and Washington there is an indexing of sales to the market only. They are planning to do that on the west side of Oregon and Washington within the next year.

The third thing, in other public agencies, and I point to the Resources Department in Washington, they had a substantial down payment of 10 percent which ran for the full life of the sale and was not applied to stumpage until the end of the sale. Because of the unusual nature of this current downturn, they had identically the same problem that we had. I think we have to put in focus the uniqueness of the major change in our whole economic system, our whole banking system and the whole group of conditions that surround the present time are unusual, unique and may hopefully never occur again in our reasonable lifetime.

But they, no matter what we had done, we would have been in the same dilemma regardless. But there is effort being made to moderate some influences on this.

Mr. CLAUSEN. Are you familiar with the Canadian timber sale policies?

Mr. EHINGER. Somewhat, yes.

Mr. CLAUSEN. I have a general perception on the basis of information I have that the Canadian timber policies have more in the way of consideration for the impact on the community. I wonder if you could explain from your perspective what you would see in the way of a parallel situation to what we are dealing with here, and if there is anything in the way of a reason to give consideration to the Canadian timber sale policies and their potential application here?

I would just like to have a general overall perspective from your point of view.

Mr. EHINGER. There are a few things that one should be aware of in the Canadian situation.

First, the Canadian timber is used by the Provinces and it is the Provincial Government that deals with it, not the National Government. They are used as a major source of employment, and also Government relies for a major portion of trade, they depend on the forest products for balances of trade.

In fact, the forest products in international trade exceeded minerals, agriculture and fisheries in 1979 and 1980 for Canada. The magnitude of the industry is tremendous.

Second, they do everything within each Province to see that the industry keeps operating as much as possible because it is their single major base of employment, and it also is the major source of revenue.

They escalate in somewhat the fashion that we do in the eastern part of the—I should say in the western pine region, the inland region, they escalate timber sales in the same manner with relationship to the market and that is responsive. But in addition they reappraise all timber annually for costs. So the cost inflation is taken into consideration on the annualized basis, the market on a monthly basis, particularly in times of moving.

All the Provinces and the Government are dedicated to keeping the industry working and there is a cooperative position between the Government and the industry to see that that is done.

I think we find in this country we get ourselves in rigid positions, we find ourselves between the agencies many times in the market in an adversary position somewhat as we are here, not necessarily adversary but we find the Government unwilling to move here to see that we stay in business, while in Canada they break their necks and bend over backwards to see those people stay in business and penetrate the market to the maximum extent possible internationally.

Mr. CLAUSEN. The last point you made is something that was brought to my attention, that is, the substantial penetration of our own markets from the Canadian timber and lumber resources. Could you spell out briefly—we will have to go vote in a second—what is the measure of impact on the east coast, what is it on the lower 48, if you will, and I think that would be helpful.

Mr. EHINGER. In the country as a whole, the Canadians penetrated slightly in excess of 30 percent of the market. Last year if we had not considered the strike in British Columbia they were at 33 percent penetration. It varies widely. In the east coast where we are now, they penetrate about 70 percent of the market. In some Southern States, Georgia and Florida, they are at 55 percent. You get over to Mississippi and Alabama, they are substantially less.

When you get on the west coast they are very substantially less. But they have been increasing their percentage of the market on a steady basis for the last 20 years, and it grows from the beginning of this decade to the end of about 17 to 18 percent, up to over 30 percent.

Mr. Huckaby. Thank you, Mr. Ehinger.

We have two pending votes on the floor. I would ask if it would be possible if you gentlemen might wait until we return in approximately 10 or 15 minutes. I have several questions I would like to pursue, and I am sure the chairman does, also.

We will stand in recess for approximately 15 minutes.

[Recess.]

Mr. Weaver [presiding]. The subcommittee will be in session. I would call back to the stand Mr. Newbry, Mr. Davis and Mr. Sohn.

Thank you very much for returning. I am sorry about the adjournment.

First of all, let's get on the record what the average price is of the timber that we have now in high priced contracts and the present market price. The figures that have been given to me of the 10 million board feet have been purchased for $469 a thousand, while the present market price is somewhere around $200.

Do any of you have the figures?

Mr. Sohn. Mr. Chairman, Mr. Ehinger has, I believe, introduced these numbers into the record.

Mr. Weaver. Good, excellent. Then we have those numbers, so we know what we are talking about that.

Now, the industry proposal which we placed in the record essentially outlines the plan referred to as the Hatfield-McClure proposal of some weeks ago, which is generally the industry's product of negotiations, is that not correct?

Mr. Sohn. What we referred to as the industry negotiations was a discussion on July 14 which developed a near consensus and the figures of 40 percent of termination, and other considerations were the terms basically discussed during the industry consensus.

Mr. Weaver. What I would like to know from you gentlemen, is this, while these are the outlines of the agreement here as you have submitted it for the record, a tentative meeting of the minds, or however you wish to term it, Mr. Sohn, if you had your druthers, with all else being equal, would you like the ability to have full termination? Do you think that would be fair?

Mr. Sohn. In the area of southwestern Oregon where we depend on 80 percent to 90 percent of our needs for public timber, the burden that would carry is basically public timber, Forest Service timber, and we own today 90 to 95 percent of timber sales that we cannot profitably operate and a larger percentage on termination would solve our problem better than any other way.

Mr. Weaver. So if we had full termination or some closer percentage than 40 percent to full termination, we would not need to rely so much on extension of contracts; is that correct?

Mr. Sohn. That is correct, Mr. Chairman.

Mr. **Weaver**. And we also would not need any rollback provisions, either; is that correct?

Mr. **Sohn**. That is also correct.

Mr. **Weaver**. I noticed that the paper that you submitted says that rollback would have some unfair implications. Would you explain?

Mr. **Sohn**. What we are certainly concerned about in our area, also, Mr. Chairman, in our markets, in the markets that we normally sell into in southwestern United States and also in the South as we indicated and heard from other people, as we overproduce or produce to our total capacity which at the moment we produce basically at the 50 percent level in our area, if these timber sales would come on the market with cheap prices, our mills could operate at a level which would be much higher but a very, as it was mentioned yesterday, in an inelastic market on the demand side would not absorb these products, it would have to be at the expense of other areas and the prices would drop drastically.

I mentioned in my paper one of our major products in the last 4 months has dropped 34 percent as an example of our overproduction and oversupply of cheap timber.

Mr. **Newbry**. Could I expand on the rollback matter just a little?

Mr. **Weaver**. Surely.

Mr. **Newbry**. I think the concept of rollbacks was designed to deal with the problem of BLM sales in western Oregon in an attempt to get those sales harvested and produced the cash flow to the counties. But the time has passed that that would be effective and I think that while it would have been a good thing if it could have been done early this year, the opportunities for value to that concept I think have long since passed and the fact of the matter is, I don't think it will work now.

Mr. **Weaver**. It does have one flaw that you mentioned in the industry paper; that is whereas under termination, the timber is put back on the market for anyone to bid on, in rollback the original bidder would have the timber at a cheaper price and keep it at a cheaper price with rollback; whereas the others who had not bid higher on the timber would not have a chance at getting the timber at that cheaper price; is that not correct?

Mr. **Newbry**. I think that is right, yes, sir.

Mr. **Weaver**. If Congress were to allow termination and the timber was put back to the Forest Service and the BLM for sale, how would you feel about some kind of limit on the amount of timber coming on the market over the next few years?

Mr. **Sohn**. Mr. Chairman, it would be obvious that under current market conditions that we cannot use our present current sales program and the terminated volume.

The use of the terminated volume at prices that exist has passed and it cannot be used at this moment. It has to be put as I call it in my paper, as a timber reserve, maybe indexed in the future of feeding it into the market when housing demand justifies it.

But in the West, for us to operate at all, and if we are to operate next winter and not have all of our people unemployed, we must have current sales programs under which we can operate and compete in the marketplace like we always have in the normal fashion in our normal markets so the key would be, it seems to some of us, that the overburden has to be withdrawn from the market and not enter the market now.

Mr. **Weaver.** What would you say to a provision that would feed back the terminated timber in the regular RPA allowable cut or the regular allowable cut program?

Mr. **Newbry.** I think that represents the position of the industry, Congressman.

Mr. **Weaver.** Also, your paper says that a full extension bill would not resolve the problem; is that correct? If the bill was just allowing extensions and nothing else?

Mr. **Newbry.** I think a bill that provided only for extension and nothing else would not be in the best interests of the public nor necessarily in the best interests of the companies involved for the simple reason that these contracts would remain in the hands of the people who bought them and I think it would be disruptive in the management plans of the respective agencies.

In my opinion, the contracts—if that is the only remedy, you are looking at 10-year extensions to work this out. I think that is an inordinate amount of time. It comes back to your question a few moments ago, the more you terminate the less you have to extend and vice versa.

Mr. **Weaver.** Yes.

Finally, what reforms, and I am not talking about collapse of the housing market, let's hope that doesn't happen again—but what reforms would you advocate to assure that we don't go into speculative bidding again? Do you have any that you think should go into a bill or should be incorporated in one way or another in rules?

Mr. **Davis.** Mr. Chairman, the Forest Service has already instituted some reforms along those lines. It is not requiring that the purchaser be prepared to put 5 percent downpayment, which is a novel concept in Forest Service sales. We have never had that before. They have requirements mandating a mid-point payment of up to 25 percent of the value of the timber sale, or forcing the operator to have removed 25 percent of the volume from the sales.

Now just those two alone have changed the situation regarding buying and holding Federal timber. We think they are stipulations in the right direction.

Mr. **Weaver.** Thank you very much. I appreciate your coming back and answering questions and I appreciate your testifying today.

Would Mr. Ehinger, Mr. Emmerson, and Mr. Bendix come back to the table, please?

I would recognize the gentleman from Louisiana for questioning that may have come out of that testimony.

Mr. **Huckaby.** Thank you, Mr. Chairman.

I will be brief. I would like to pursue, Mr. Ehinger, a couple of lines of thinking with you if I might. I recognize that there should be some legislative relief, that is appropriate, for the timber industry, especially an industry that deals with U.S. Government lands and it has such impact elsewhere.

Thinking back, could you relate to me approximately the price for stumpage per thousand, the industry as such, say in 1975?

Mr. EHINGER. I don't have the figures right in front of me, but they were at that time probably at $100 or below what they paid in 1979 or 1978 and 1979.

Mr. HUCKABY. How much was it in 1979?

Mr. EHINGER. We were up in the area of $300, $350. That was the average for all species I am talking about. A particular species, the Douglas fir, got in excess of $400 for extended periods of time during the 1979 and 1980 period.

Mr. HUCKABY. Would it be a fair statement to say that during this period of very high inflation and extremely rapidly increasing stumpage values that the timber operators who purchased earlier and harvested 3 to 5 years out did in fact make a windfall profit?

Mr. EHINGER. No; actually what it meant is essentially that they had timber under contract and those who did not buy the inflationary factor found themselves in the impossible position of needing timber that current year and bidding against someone who anticipated 2, 3, 4 years out.

The inflation did not for the most part give any windfall profits to anybody. It allowed them to survive and set a bidding pattern which was substantially different from that which existed during the 1950's and 1960's.

Mr. HUCKABY. You said no one made abnormally high prices when profits went up and I could bid and harvest 3 or 5 years later, there were no profits in that period?

Mr. EHINGER. I am sure some people made good profits but they soon found out with the threat of decreasing supplies as they were perceived through wilderness and other restrictions that they had anticipated coming down the road, the feeling was if I had the timber now I would come out on it eventually and they bid up to the level where they made just normal profits in the later years. They were not exorbitant profits.

Mr. HUCKABY. My point is the third provision, one of the key operatives of the bill before us, is the fact that the modification of the purchase price of timber price reflects current market values, my question is, would the industry be willing to do this on both sides, on the upside and the downside?

Mr. EHINGER. We did it by bidding on the upside. The bidding gave the government more near the market value at the time of harvest than had they not had the competitive bidding.

Mr. HUCKABY. I am talking about future transactions.

Mr. WEAVER. Would the gentleman yield; doesn't the Forest Service propose going to indexing Western timber in the next year?

Mr. EHINGER. Yes; indexing to the market only for west of the Cascades, yes.

Mr. WEAVER. It is now indexed east of the Cascades.

Mr. EHINGER. Yes, and in California and the proposal was to be put in place next year.

Mr. HUCKABY. This was indexing at the time of harvest from the bid?

Mr. EHINGER. Yes; it is a cooperating index up or down.

Mr. WEAVER. The gentleman is making a very good point, and it is one I think we should explore closely with the Secretary when he testifies tomorrow because that is a good point. I will say that there is no question that there were profits made by buying timber in 1975 and selling at a higher market in 1978 but what I heard many, many, many timber purchasers, lumber mills and so on tell me and others is as the price of timber rose they bid actually higher than they could afford to bid and then took their cheaper timber and even had it out so they actually lost some of these potential capital gains there in many cases.

But the gentleman's point is very well made and a good one.

Mr. **HUCKABY**. Another question if I might, the first portion refers to termination of a portion of timber sales prior to January 1, 1982.

Are you satisfied that with something this wide open that there doesn't say anything about what portion or for what period of time that it shall be among all industries. Would you feel more comfortable that 40 percent of the contracts shall be terminated if the party desires to terminate?

Mr. **EHINGER**. We are in support of the industry position which is 40 percent as submitted by the white paper by Mr. Sohn in the first series of testimony.

Mr. **HUCKABY**. Thank you.

Mr. **EHINGER**. We are supporting a specified amount, yes.

Mr. **WEAVER**. Will the gentleman yield again on that point? You came in right after I had a line of questioning with the three previous witnesses.

Mr. Sohn answered this question, but west of the Cascades if you had your druthers, all else being equal, you would prefer full termination, would you not?

Mr. **EHINGER**. We would prefer greater termination. I wouldn't go full, I would make one other observation, I think it is important that the percentage of termination and the 5-year contract term adjustment, they are tied together. If you move, you cannot move one and just shorten up the term adjustment without changing the percentage because it is going to take by any calculation one can go through, unless we have exorbitant inflation again, it will take the full 5 years to work off remaining volume not terminated at 40 percent.

Mr. **HUCKABY**. One final question; would you comment on the volume of timber that the Forest Service is offering for sale in the Pacific Northwest as it relates to the last 10 years of housing starts?

Mr. **EHINGER**. The relationship that has been talked about, the relation to cut, and we have not in any region harvested in the last year or two that much has been offered to cut simply because of the total reduction in the housing market.

The point that we are looking at that is in the West anyway, we are dealing with 3 to 5 years or 7 years out on timber supply. If we restrict offerings too greatly in fiscal 1983 and 1984 which is the subject that was discussed, we are looking at trying to identify what the volume the markets will take in 1986, 1987, 1988 and possibly 1989.

Also, in order to liquidate the 5-year or 60 percent not terminated under our proposal, we would have to have adequate flow of timber into the marketplace to average out with that. If you restrict it too much you simply won't be able to average out the high priced timber remaining.

Mr. **Huckaby**. Is it true that the amount offered would substantially be 2 million housing starts? Offered for sale only?

Mr. **Ehinger**. I would not want to suggest a direct relationship to that. I simply don't know that it exists in that precise a term.

Mr. **Huckaby**. The Forest Service offered too much for what the market could support and continuing it would artificially lower the price of timber?

Mr. **Ehinger**. They are selling more today, true; but what they are selling today is not going to be harvested until 3, 4, or 5 years down the road. To say we shouldn't be offering today, you are saying what is going to happen 3 or 4 years down the road, not what will happen today.

There is a limited volume of timber being offered which is being harvested promptly but it relates to about 20 percent of the volume being offered, not the entire volume offered. We are now judging on what will happen down the road and that becomes somewhat dangerous.

Mr. **Huckaby**. Are you perhaps suggesting that the window of time for harvest is too long?

Mr. **Ehinger**. Not too long, necessarily, but we take that long to develop timber sales in the West. We have very long access problems, we have a series of restrictions for environmental reasons, very often timber sales are only allowed to be harvested 1 or 2 months during the year.

You get into the Rocky Mountains, they may have a season in many areas only 3 to 4 months because the rest of the time they are snowed out. There are a whole host of reasons why we develop the length of sales the way they are. They are valid in 80 percent of the cases, probably 20 percent could be shortened up. But to make a blanket statement they could be shortened up is just not squaring with the facts.

Mr. **Huckaby**. Would you concur with the premise that by recent historic standards if we are offering greater amounts of timber for sale today that that further decreases the stumpage price?

Mr. **Ehinger**. Well, I think the decrease in stumpage more nearly related to the facts of the marketplace and the people realize that all of a sudden the whole system is changing. We have a change in the banking and thrift institutions, the housing, the size of houses, all this will have a dampening effect on future markets.

The economic projections for the next few years are such that we cannot expect the same level of demand that we had before.

But I would also caution you that in the West there is a strong interrelationship between the flow of private timber and flow of public timber because we have many of our private-timber stands being depleted and as a report put out a few years ago by Oregon State University, by John Beuter, which was well-recited, shows a substantial decline in the private timber supply in the next few years or decade or so. That has to be felt by the public sector.

So to make these very direct relationships is very difficult because we simply have a shifting of the timber reserve from one party to another and you have to look at the whole picture.

Mr. **Huckaby**. I would only say to you that I think that the pricing action I see occurring in the West is having adverse effect on private timber stands throughout the Nation. Certainly at today's market prices there is no incentive whatever to expand or increase private timber holdings.

Mr. Ehinger. Actually, I guess a person can try to draw various conclusions. I would only draw your attention to what has been alluded to, but talk about the last 2 or 3 or 4 weeks, go back into the middle of June. Take two commodities, for example. The Douglas firs 2 by 4 green is at the lowest price since 1975. We are dealing last week with a market price of $140 and it peaked out at $170 sometime in the last year.

Now the Southern pine kiln-dried 2 by 4 is at $205 when it was in the same range last fall, and they have experienced prices in the last few weeks of $230 or $240 which almost are all-time highs.

Now the relationship for some reason, the Southern pine people have gotten a better market than the west coast people have. It is because the housing programs in the South have not been hit as hard as they have within the central part of the United States or the western part of the country.

So, to say that the prices are down in the South and that we are forcing them down doesn't square with the arithmetic that you find in the marketplace.

Mr. Huckaby. Thank you, Mr. Chairman.

Mr. Weaver. Haven't the prices fallen back again in the South? Didn't that come from the people who treat 2 by 4's having nothing in their pipeline and suddenly they needed the lumber and they bid it up and it went up for about 3 weeks and fell right back down to about $70?

Mr. Ehinger. I did not have last Friday's quotation but the Friday before, August 6, it was $205 a thousand versus $164 kiln-dried Douglas fir. That is larger than the historical discrepancy for many, many years.

Mr. Weaver. Thank you very much. I appreciate your coming back to the table.

I will call Mr. Don Fisher, Bohemia Lumber Co.

STATEMENT OF C. DONALD FISHER, VICE PRESIDENT, TIMBER FOR BOHEMIA, INC., EUGENE, OREG.

Mr. Weaver. Thank you very much for appearing, Don. You may proceed with your testimony.

Mr. Fisher. Thank you, Mr. Chairman.

I am Don Fisher, vice president, Timber for Bohemia, Inc., and we have corporate offices in Eugene, Oreg.

The issue before you today doesn't seem to have a clear answer, but indications based on my 30-plus years of experience with the Forest Service, Internal Revenue Service, and in private industry show it to be very close to a life-or-death issue for many independents in the wood products industry, including Bohemia. The impact on cities, counties, and schools is almost unimaginable.

In Oregon, the Federal Government owns 52 percent of the surface area, ranking among the top in the Nation. The effect of any Federal action, including those taken by the Forest Service and BLM, causes violent tremors in Oregon's economy. Thus, any action or inaction by the Forest Service and the BLM is the deciding factor in our economy.

In addition, Oregon, by law, must have a balanced budget. Our legislature has already had two special sessions and will likely have another to further reduce the State budget.

Eugene, the second largest city in Oregon, is located at the southern end of the 100-mile long Willamette Valley, bordered on the west by the coast range and on the east by the Cascade Mountains.

Eugene was voted the most livable city for its size class about 5 years ago. Today, Eugene would not be in the running regardless of its new $18.5 million new Performing Arts Center, new Hilton Hotel and convention facilities, and downtown renewal project.

Eugene's population has dropped from 110,000 to somewhere below 100,000. That is my estimate based on what I see. Almost every block in Eugene and surrounding small towns has one to five houses for sale, for rent or a sign saying simply, "take over my existing mortgage."

Lane County, where Bohemia is mainly located, has 11.6 percent unemployment. Our neighbor county, Douglas, where Roseburg is located, has 20 percent unemployment now.

The same general conditions apply in the small communities of Culp Creek, Saginaw, Lakeside, Coburg, Brownsville, all in Oregon, Grass Valley and Lincoln, Calif., where our plants are located.

As a result of all this, a large portion of the local property tax payments are late or in default. Our local Eugene School District just got word they will be $2 million short in their budget due to late and delinquent property tax payments.

Lane County government is in a similar situation with employee reductions and is almost closed down each Friday to conserve salaries.

The fabric of Oregon's social order is being torn asunder by the reduced or inoperable status of our wood products industry. That is the dismal situation today in Oregon.

A few facts about Bohemia will demonstrate why I am here today. Bohemia is an integrated wood products producer of lumber, plywood, particleboard, laminated beams in our Oregon operation.

Our log usage in Oregon in normal times is approximately 200 million yearly and 85 percent of it is purchased from the Forest Service and Bureau of Land Management in western Oregon.

We have a small log mill at Lincoln, Calif., and a large old growth pine and white fir mill at Grass Valley, Calif., about halfway between Sacramento and Donner Pass in the Sierra Cascades.

In total, we employ 2,000-plus workers, loggers, and contract loggers at full wood products operations, which has not been the case for almost a year.

We are not a small business. Nor are we large business in the sense of national and international producers. We are a publicly held corporation, listed down in the over-the-counter market so we are strictly small potatoes.

All of our plants are located in the small communities adjacent to national forest and BLM lands and are usually the major source of support in those communities. These small communities are the sinews that bind our social order in Oregon and are the ones being crippled by the present timber situation.

I have several questions to pose and answer briefly:

One. How and why did we get into this disaster area?

Two. What do we do about it?

Three. What happens if relief is not granted?

First, how and why did we get here. Bohemia, along with the others appearing here, is 85 percent to 100 percent dependent on public timber. We and many others were the victims of inflation and the rosy economic forecasts for the 1980's.

With our $100 million investment in plants, we endeavored to maintain a 2- to 3-year supply of timber ahead for rational planning purposes.

To do this, we and others were forced to compete against fast-buck speculators with no plant facilities who were looking for what appeared to them to be a pot of gold at the end of the rainbow.

Add to that the possible reduction in timber supply by RARE I and RARE II actions and now infamous timber partnerships, the latter, incidentally, now a dead issue by an IRS ruling.

Last, but not least, was the fact that almost anyone could walk in off the street and qualify to bid on multimillion dollar Federal timber sale contracts.

With these conditions, you have the recipe for the acute financial situation facing Bohemia, and other companies, the counties, cities and the State of Oregon.

What do we do about it? I am here to ask for immediate relief in the form of termination of at least 40 percent and contract adjustments of nonterminated existing contracts that were bid prior to January 1, 1982.

Bohemia is currently operating at 70 to 80 percent of capacity, in one of the lowest wood products markets we have ever experienced. We are fast running out of economically operable raw material while having a large inventory of timber priced too high to economically harvest and process.

It is no secret to anyone, the figures are there publicly, we have approximately 400 million feet of Forest Service and BLM timber under contract that is economically inoperable anywhere from $25 to $250 a thousand.

You have heard or will hear all the technicalities of price rollback, termination, contract term adjustment, and purchaser credit.

There is no need to repeat those. We have been informed just recently by the Forest Service that contracts will begin to expire in September 1982 and reach large volume figures in December and early in 1983.

The stage is set for massive defaults late this year and in succeeding years, as certain contract procedures must be taken by the Forest Service that are irrevocable.

This makes it imperative that legislative action be taken soon to avoid these massive defaults on Forest Service and BLM timber contracts. No one gains and everyone loses by defaults.

I would like to clear up what is a misconception at least to money flowing to the cities and counties. They get no money when a contract is defaulted and damages are incurred and assessed by the Government.

Damages flow directly to the Federal Government.

The only time that counties and cities can get any money from Federal timber is when that is harvested and paid for.

The cleanest, quickest and most equitable solution to the forest industry politically induced problems is termination and resale of the contracts at a lower price, contract term adjustments of up to 5 years on the nonterminated contracts.

Contract term adjustment would permit the contract holders to feed in the extended timber sales with lower priced currently purchased timber for an orderly liquidation.

That was another thing put out, they are saying it would not be cut for 5 years. The idea of not cutting in 5 years is ludicrous. If we have a sale to finish, we have to begin harvesting that 3 or 4 years ahead of termination. You can't wait until the last year to harvest.

What happens if no relief is granted? First of all, there will be massive defaults and I am talking in billions of board feet. Forest Service figures for the west side of R-6—Oregon and Washington—show approximately 11 billion feet of timber under contract at rates of $25 to $250 above a breakeven value.

Due to drastically reduced timber harvesting, the counties and schools' income from timber—50 percent from the BLM income and 25 percent from the Forest Service—which goes directly to the counties.

That is down to 40 percent of several years ago. Without relief, that percentage could drop even lower due to decreased harvesting by bankrupt companies simply liquidating.

Just imagine if a major segment of your income was cut 60 percent. The State of Oregon budget has been cut twice in special sessions and it looks currently as if another large cut will be necessary.

University budgets are being slashed unmercifully. Another State budget cut due to lower tax income will probably result in the elimination of a major school at both Oregon State and the University of Oregon in Eugene. That is unacceptable.

To attract and maintain industry, first-rate educational facilities must be available. Both of our State institutions are losing topflight personnel due to budget cuts. This cannot be permitted to continue if we are to maintain an attractive educational industrial environment.

We cannot accept more unemployment and shutdowns. Many employees have or will shortly run out of unemployment benefits. No one knows how many families are currently without any income whatsoever.

Bohemia patronizes many small suppliers. It is these independent small suppliers that are falling by the wayside in ever-increasing numbers along with their thousands of employees.

This situation should not be permitted to continue. We feel that by only by these one-time emergency measures can the wood products industry, our employees, the schools, cities, and the State of Oregon maintain the economy and liveability that has been Oregon.

Thank you. If you have any questions, I would be happy to answer.

Mr. WEAVER. Thank you very much, your statement was clear, dramatic and self-explanatory. I have only one question. All other things being equal, if you had the choice, you would want more than 40 percent termination, would you not?

Mr. **Fisher**. That is right. Somewhere in the 60- to 70-percent range is something we could live with.

Mr. **Weaver**. Thank you.

The gentleman from Louisiana.

Mr. **Huckaby**. No questions, Mr. Chairman.

Mr. **Weaver**. The Chair will then call Mr. Rick Koven.

STATEMENT OF RICHARD KOVEN, COORDINATOR, NORTHWEST FOREST WORKERS ASSOCIATION, EUGENE, OREG.

Mr. **Weaver**. One of the more important employee associations in our area, those people who do the tree planting. Welcome, Rick, and won't you proceed.

Mr. **Koven**. Thank you, Mr. Chairman.

Before I start, I would like to, on behalf of the association, thank you personally for your support of the timber industry and particularly for your ongoing support of the reforestation industry.

My name is Richard Koven. I represent the Northwest Forest Workers Association. We are a federation of 16 workers' cooperatives located in Oregon, Washington, and Montana.

We are in the business of contracting forest management services principally with the U.S. Government. I will echo the past statements to say that we are 95 percent dependent on a normal regime of forest management which means normal harvest levels.

Our people replant harvested sites and tend young stands of timber throughout the Western United States.

I am here today representing forest workers. We are not timber purchasers, nor are we environmentalists. We are a labor group.

I must say it is a little lonely this week representing labor.

As you know, Mr. Chairman, we work very closely with the major labor unions in the Northwest to call for public hearings on this issue. I would like to strongly urge you to hold field hearings in the Northwest on this issue if at all possible because I believe that with field hearings, we would get a much wider perspective, much greater input on this and perhaps garner much wider support.

Timber sale purchasers hold the actual timber sale contracts. Yet it can be argued that there is also an implied contract for the harvest of timber with all the citizens of a timber-based economy.

After all, we know 5 years in advance what levels of timber harvest to expect because those levels are guaranteed by contract with the U.S. Government. We base our economic future and our livelihoods on that guarantee.

When the logs stop rolling in the forests, when the mills shut down, it is not only millworkers who lose their jobs, the loggers, truckers, and tree planters lose.

The whole economy falters, the school systems, county and State governments, experience difficulties. The point I am trying to make is it is not just the timber purchasers that are in trouble.

We all need relief. Yet we recognize that true relief for woodworkers will not come until the economy turns around, until interest rates fall, until housing starts increase, and the woods products industry is back on its feet.

Meanwhile, it seems appropriate to focus relief on timber sale contracts because these contracts are the key to our economic survival.

In that light, I ask that whatever relief you grant, whatever you do, that as a minimum, you don't make it worse for us.

We are just barely making it now. Next year we are projecting a 40-percent of normal demand for reforestation services in the Western States. We are surviving, we think we can ride this out if and only if the Government does not deliver any further blows to our industry.

In that light, I ask you to examine this legislation in regard to the balance of interests among those affected.

In our minds, equitable relief is that which maximizes harvest while minimizing unbearable hardships on purchasers.

We ask you to look at the bill and ask, does this maximize harvest. That means maximum employment and maximum flow of revenue to government.

I am going to abbreviate the rest of my testimony, Mr. Chairman, just to say that the association endorses the opening sentence of section 2 calling for the economic hardship areas, and endorses the price modification.

On contract terminations, we will support them reluctantly. On limited basis, that is. We have the hope those contracts and that timber involved would be resold on the market, of course.

Now to my favorite subject, extensions. Governor Tia delivered a stinging indictment of timber sale contract extensions yesterday and I have to say that I wholeheartedly agree with him. I find it interesting that nobody has anything good to say about extensions and yet they manage to get their way into every proposal for relief.

A statement was made earlier today that there is no subsidy involved in the proposal. I would like to disagree with that statement.

What we are dealing with here is a spectrum of relief. There is some who say there should be no relief, the feet-in-the-fire theory. We don't agree with that. The other end of the spectrum is all types of relief for every contract and for every purchaser.

That is what we have on the floor, on the table here.

The problem with extensions is that nobody contends that every purchaser is in an insufferable financial position and not every sale is inoperable. Yet every purchaser and every sale will be eligible for extension.

The subsidy's difficulty is this, if you extend one sale that is inoperable, we have paid a price of the loss of jobs to loggers, truckers, tree planters, and millworkers with that extension and the local governments and the Federal Government is paid a price.

That is a subsidy. There cannot be any question about that.

I find it hard to understand why extensions are included in this package. How is it that they are necessary, given other options that are offered, the termination option, the price modification option. It seems to me offering extensions is the hedging of bets.

It is saying that these other measures are not going to work and now we are talking about 2-year extensions and 5 years, but it is now 10-year extensions.

The one thing I remember clearly is when Secretary Crowell announced a 2-year extension last October, it was said that it was done in the interests of our communities.

I remember in the weeks immediately following that announcement, there was a wave of mill shutdowns and layoffs. I can't imagine what the effect of the announcement of 10 years' extensions would be on western Oregon and Washington.

To conclude, I have to say there is nothing in this bill for labor, really. There is nothing in this bill for those of us who work in the woods.

I think there are some things that could be considered. I will not bring them up now because I am not sure this is the forum for it.

But to reiterate my point, what we ask of you is that in relief you bring to timber purchasers that you don't make it worse for people working in the woods. You should consider the kinds of relief that are equitable and ultimately that you do what you can to get our timber harvested so we can get back to work in the woods.

Thank you.

[The prepared statement of Mr. Koven appears at the conclusion of the hearing.]

Mr. **Weaver**. Thank you, Rick. As usual, you made an excellent statement.

You are certainly right. I have seen no one yet get up and make the case for extensions. No one. No party has. Yet it always appears.

As you know, I oppose extensions and for the reasons you enunciated, I oppose them. To say there is nothing for labor in this bill, however, remember that in order to keep you working, we have to keep the timber harvesters working because that is how you go to work.

So if we keep the timber harvesters working, we are in effect keeping you working. So in that regard, there is that.

I agree with you, though, that we are going to have to examine this bill very carefully to make sure that all parties, all people involved, the entire economy, is getting the best possible resolution that we can.

For that reason, I happen to believe we can put together such a bill. I feel strongly about that. I have gone for 1 year doing little else but listening to all the various factors from the South, to the West, to the large and small companies, tree planters, unions, and others. I think their aims and needs are relatively similar and that, therefore, I think a bill can be put together that can resolve this whole thing to the best benefit of all elements of the economy as well as to the Government.

The Government is not getting a thing out of this if everyone goes broke.

Mr. **Koven**. We totally agree. We feel we are an integral part of this industry. We feel the need for relief, but this question of extensions is out of place. Perhaps one of the people that testifies later could explain to us how exactly it is that extensions are in the overriding public interest?

How is it that extensions in the context of all other options is the best way to go? I would like to hear the answer.

Mr. WEAVER. I would, too.

Mr. Huckaby?

Mr. HUCKABY. Thank you, Mr. Chairman. If you had a choice of the remedy being extensions, would you be for it or against it?

Mr. KOVEN. Absolutely against it.

Mr. HUCKABY. Thank you.

Mr. WEAVER. Thank you very much for your testimony.

We will call Mr. Bill Coates, and Mr. Harold Rutherford. I welcome you.

Mr. HUCKABY [presiding]. Welcome to the subcommittee, gentlemen, you may proceed as you wish.

STATEMENT OF BILL COATES, CHAIRMAN, BOARD OF COUNTY SUPERVISORS, PLUMAS COUNTY, CALIF.

Mr. COATES. Mr. Chairman, I am Bill Coates, chairman, Plumas County Board of Supervisors, Plumas County.

Plumas County is located about 80 miles north of Lake Tahoe and 81 percent of our county is National Forest Service land. Plumas County normally ranks No. 3 in timber production in California.

Our county is currently staggering under the threat of bankruptcies and layoffs due to the seemingly inevitable economic collapse of the timber industry. Disruption of county funds has already begun, and the community stability of 40 to 80 towns in the Sierra Nevada Mountains in the Central Valley, along the California Coastal Range, and in the Siskiyou Mountains is now in serious jeopardy.

For the past 1½ years, many northern and central California counties have been waiting for congressional relief and leadership in revitalizing through modification or termination a bidding level which will push many timber companies into bankruptcy if it isn't changed.

We haven't felt that it is in the best national interest or in the best southern interests or in the best union interests, to flatten the vital timber industry which is necessary in helping to sustain needed flow of income to the Federal Treasury and to units of local government.

It also provides the main source of employment to many rural areas, and its health will be critical in the future as we struggle to rebuild the Nation's depleted housing supply.

In Plumas County, the U.S. Forest Service has predicted our forest reserve revenue for the 1982-83 year at $1,500,000. This is a drop of almost two-thirds from what we have been averaging over the last 10 years, even before adjusting for inflation.

When you take the last 5 years, it is a drop of more than one-third.

How does this hurt? Aside from the 14 to 30 percent unemployment rate—which is what we have now across our economy, and in the timber industry, it is much higher—but aside from the 14 to 30 percent unemployment rate foreshadowed by the USFS estimate, and which we have been struggling with for the last 14 months, this decrease occurs in a revenue which finances about two-thirds of our road system and about one-fifth of our school system.

Our situation is not unique. As many as 15 or 20 other California counties may have similar problems. All of us are additionally concerned about unemployment benefits running out which will cause people, sincerely interested in working, to have to seek general relief money from the counties, money which we don't have.

Some might ask, "Why are the counties willing to see contracts reduced in value which they will receive 25 percent off?" Aside from the fact that if the timber industry is flattened, the counties and communities will be also, most of us realize that 100 percent of nothing is nothing.

Most of us would rather see realistic bid prices which are a true reflection of marketplace, stabilizing our employment and our income base.

A quick survey by telephone of the officers of the rural counties of California revealed distinct and urgent support for the efforts of Senators Hatfield and McClure on Congressman Weaver for bidding relief legislation.

Some might ask, "Why are the counties so pessimistic about the current future of the timber industry?" All of us in the timber-producing counties of California have examples of mills closed down and men out of work, of schools in trouble and of families on welfare that want to be working.

The study by George Craig, a registered professional forester, discovered that recovery is not just around the corner.

Chairman Weaver alluded to the fact that according to the Forest Service, about 30 percent of the sales out there that are inoperable, studies in northern California, indicate that studying 366 different sales not one of them was capable of producing a profit. So we think that the figure, unfortunately, is a lot higher than 30 percent, all up and down the west coast. Certainly it is in northern California.

Reflecting on George Craig's study, which has been entered into the record, returning the marketplace to the most optimistic market prices will still not allow the average efficiency operator to operate in the black.

With average operating costs of $295 per thousand board feet and average stumpage charges of $222 per thousand board feet, many of us feel that even a substantial drop in interest rates will not make it possible to harvest sales bid previous to 1982.

As previous testimony indicated, sometimes the trees are costing us more in the woods than they will sell for after they have been milled and even before we add any cost of milling.

Some might ask, "Why not let the weaker mills and much of the industry collapse so that after resurrection and reconstruction, we have a stronger and wiser industry?" I believe that this reconstruction in the industry would tend to concentrate power in only the largest of corporations, perhaps weakening what is now a very competitive and comparatively nonconsolidated industry.

I don't believe personally that that lapse on the west coast in reconstruction is good for the timber producers in the South.

The counties and communities affected by this chaotic transition would have a tough time maintaining their road and school systems, which compliment the national forests. The overall road network is a key to public use, the harvesting of timber, and the overall management of the other resources of the forests.

The school system supplies a vital support system to those who work in and manage the national forest lands and rural education is more expensive due to distances and climates, as you know.

Pertaining to current proposals, I believe that contract term extensions and contract term adjustments, without additional provisions, will only add to the uncertainties, and delays the resolution of what to do with the many Federal timber sales that are under contract, but are inoperable currently and will remain so in the future.

The best suggestion for survival until the market rebounds is for the allowance of contract termination and if this occurs for only some contracts, then the remaining contract dates would need to be extended so that their negative profit impact could be mixed with new contracts.

In conclusion, I would like to ask for leadership in this critical area from Congress. Help us to keep our counties and our communities functioning, and our people working.

I would enjoy answering any questions you may wish to ask.

I have one additional quick comment that occured to me while I listened to the earlier testimony.

Some of the testimony asked for proof of economic hardship and that is a concern and bothers some of us. I believe that proof of economic hardship would take a building this size full of accountants to figure out.

I think that if we wait until a company is eligible for bankruptcy, it is too late to help the company much anyway.

Also, I am concerned that if we just go in and terminate contracts for an outfit that is just about to go under, we will be helping the weakest economic firms in the West and all over the United States while weakening the stronger ones.

I think that that penalizes them for planning and management, and over a long period of time, would tend to bring the strongest down to the weakest level and that, as a suggestion, I would think that some kind of regional analysis on the average operator would probably be a better yardstick to use in trying to determine whether the termination was necessary.

Certainly the study of Mr. Craig in northern California indicates that we have some real severe problems and I believe the Forest Service looked at that study and believes it to be valid.

Thank you, Mr. Chairman. I will be happy to answer questions.

Mr. HUCKABY. Thank you very much for your excellent statement.

Mr. Rutherford.

STATEMENT OF HAROLD RUTHERFORD, LANE COUNTY COMMISSIONER, EUGENE, OREG., REPRESENTING NATIONAL ASSOCIATION OF COUNTIES

Mr. RUTHERFORD. Thank you, Mr. Chairman.

Mr. Chairman, I am Harold Rutherford, and I serve as a commissioner for Lane County, Oreg., as Congressman Weaver said; he mentioned that is his home county and we both hail from the same town.

I have also had the opportunity to serve on the Governor's timber strategy panel which was set up to recommend solutions for the unprecedented crisis affecting Oregon's timber industry and citizens.

Oregon is the Nation's No. 1 timber State, producing more softwood from more standing timber than any other State. Timber products represent the No. 1 industry in Oregon.

The Willamette National Forest, in my county, is the most productive forest in the national forest system. Of Oregon's 36 counties, 31 receive a share of revenues from the national forest system.

I want to state that we appreciate this opportunity to testify on the legislation before you to provide contractual relief to the economically depressed forest products industry.

The witnesses that preceded me and those that will follow, I am sure, will discuss the economic conditions that have led to the worst decline of the West's timber economy since the depression of the 1930's.

I am here to talk about how these conditions have impacted western counties. Specifically, those counties with national forests which are heavily dependent on the timber activities in those forests for timber revenues and employment.

The situation is near catastrophic for those communities, the States, the schools, public services, and the unemployed.

The counties are the direct beneficiaries when Federal timber is sold. While they may not be actual parties to the contracts between the operators and U.S. Forest Service, it can be strongly argued that they hold a vested right in those contracts.

And counties have to bear the economic consequences of those contracts. Understandably, the harvest, management, and long-term policies on the national forests are of great importance to counties.

By Federal law, 25 percent of the gross national forest receipts are returned to the counties in which the forests are located to be used for schools and roads.

These funds are only generated when timber is cut and removed from the national forests by contract holders. Because of the current economic conditions, a large percentage of timber under contract cannot be harvested, and national forest receipts are going to be drastically reduced.

For example, on the west side of region 6, 82 percent of sold standing timber cannot be harvested economically. On the east side, 39 percent can't be cut economically.

The U.S. Forest Service has provided us with estimated receipts for 1982. However, these are their March 31, 1982 estimates, and they will shortly come out with new ones which we believe will be down even further from 1981.

Montana receipts for 1982 will be down 36 percent from 1981; Idaho 34 percent; California 50 percent; and Arizona 46 percent.

The March predictions point to a reduction of 37 percent for Oregon, but the Association of Oregon Counties has already estimated a 50-percent drop.

These losses do not fall equally among counties. For example, while estimates for Washington only point to an 8-percent reduction, receipts for the Okanogan National Forest are down 68 percent.

Shoshone County, Idaho, has already suffered a 30-percent reduction. In many counties, these receipts are a large part of county budgets.

Because counties nationwide are struggling with reduced budgets, the impact of this disruption could be crippling, and will be felt far beyond the schools and roads.

Counties cannot make up the shortfalls from timber receipts by increasing tax levies, especially where the economy is depressed and unemployment is so high.

County officials in Oregon, Idaho, Wyoming, and Montana, for example, have all emphasized the near impossibility of raising revenues through taxes.

Idaho has imposed a revenue tax freeze since 1978 with the 1-percent initiative; Wyoming and Montana have an overall limitation on county mill levies.

Oregon has a 6-percent limitation on local budget increases.

I am sure, as Chairman Weaver knows, we have a 1½-percent initiative on the November ballot that would give us a greater limitation possibly.

The impact of reduced timber receipts will further force counties to layoff or furlough more employees and cutback even more essential services.

For example, in Oregon, most of the timber counties have been forced already to reduce their work force by an average of 30 percent, and in many cases, are only open for business 4 days a week.

Oregon has also reported that 36 school districts may not have the money to open their doors next year.

In addition to increasing layoffs by counties, unemployment in the forest products industry throughout the West is at near record levels, or about 30–34 percent in the region. In many counties, the sawmill is the most important or single employer.

Aside from the stark human tragedy this situation creates, counties must increase services to help these individuals and their families, and many counties simply don't have the resources.

In Oregon, 9 months ago, 17,000 workers were unemployed because of the timber slump. Today, 25,000 have no jobs. There are 210 mills and timber complexes under normal conditions. Right now, 74 are shutdown or severely curtailed.

In Washington, 20,218 people are normally employed in 170 mills; 6,800 workers and 61 mills have been affected.

Idaho has been suffering a depression in both its timber and mining industries. Ten counties in Idaho employ the majority of 9,400 forest products workers, 3,100 of whom have been affected. Out of 74 mills, 26 have been closed or curtailed.

These alarming statistics are just three examples; and they only describe the sawmills. I haven't even mentioned the situation in other areas of the forest products industry, all of which have been affected.

Clearly, market conditions have not improved and, as we all know, are getting worse. Economic conditions could create a potential default situation of an enormous dimension.

Many small- and medium-sized companies are on the verge of bankruptcy, and others have already gone under. In the West, these companies are dependent on the national forests for their timber. Large-scale defaults would be disastrous for the counties, as well as all other segments of society.

Because the situation is so complex, existing administrative authority has not been sufficient to provide an adequate remedy. Legislation is necessary to provide more authority—authority directed toward relieving the present crisis.

Without some kind of relief, a large segment of the West's economy may not ever recover.

Oregon, Washington, and California have each passed legislation to modify timber sales contracts on their State forests. The legislation before this subcommittee has provisions similar to those in the State bills.

Federal legislation is appropriate because the Federal Government is so closely tied to industry in a contractual relationship, in which the counties also directly participate.

NACo is generally supportive of the legislation. We feel it is based on simple logic and understanding of the problems. Regardless of the reasons, contracts entered into at different times are not operable in today's economy, and will not be activated.

The trees covered by thousands of contracts will not be cut. Additionally, we feel that to enforce the terms of the contracts, especially upon the small- and medium-sized operations, will force many into bankruptcy.

We support contract price adjustments to reflect today's market conditions and to remove the threat of potentially fatal economic pressures.

However, we do have reservations about other aspects of the bill.

We do not see any need for an extension of 5 years as is proposed. The Forest Service already has authority to grant extensions in the public interests.

Last November, they granted a second set of extensions that will run into 1985. We do not feel a further 5-year extension would help the immediate situation, and may delay even further the harvesting of timber.

Further, we are troubled by the term "economic hardship." We believe the legislation should precisely define the criteria.

As written now, the term is far too broad and subject to misapplication. We feel it should be spelled out in the bill and not left only to regulations.

We also feel that there should be a penalty for contract termination. We recognize that the default provisions in existing law are onerous in the present crisis, and would only serve to force operators out of business.

No one wants that result. However, companies should be liable for some form of damages. We would recommend that the legislation include forfeiture of the bond the operator put up with the bid, and the operator should reimburse the Government's costs on reissuing the sale.

If you allow me, I would depart to say that we also believe that possibly a small percentage of the difference between the previous and the new sale levels bearing in mind that a major portion of that responsibility for those very differences lies squarely on the shoulders of our Federal Government, its agencies and others as well.

Termination without any penalty is not justifiable.

We also feel that the Government should consult with the affected county before terminating a contract. The interest of the county as a third party is as strong as the two parties to the contract.

Finally, we urge careful attention to making the modifications apply with equal impact to all contract holders in all regions, both in the fir belt and in the pine regions of the inland States.

The legislation should apply equally to all federally managed forests.

Before I conclude, I want to comment on a proposal that had been under consideration during the last months, but, wisely, did not become part of the legislation before you.

I refer to the provision permitting companies to transfer purchaser credits from one national forest to another, including "ineffective" purchaser credits.

We would strongly oppose adding this provision to the current bills. This issue is not related to the current recession, and would in no way relieve it. In fact, it would increase Federal deficits by substantially adding to Forest Service costs.

This provision would not help those companies on the verge of bankruptcy, most of whom do not operate in other regions. It would exacerbate their situation by creating unfair competition.

Finally, we feel this provision would have a most detrimental impact on counties.

This concludes my statement. We want to commend the sponsors and the subcommittee for their efforts. I would be pleased to respond to any questions you may have.

Thank you very much, Mr. Chairman.

Mr. WEAVER [presiding]. Thank you very much, Harold.

I understand that you do support rollback in prices, but rollback of prices has been criticized as having problems, one of which being it's unfair to those who had not bid.

Certainly the National Association of Counties would also accept termination.

Mr. RUTHERFORD. Mr. Chairman, we have been through this on the timber strategy panel. We found there is no one answer to the problems, that actually a blend of these is probably a more likely solution.

The main concern that the counties have is for the flow of revenue to the communities. We priortized them on the panel, first being the employment by the communities, next the stability of the communities, next the flow of revenue into the county government and the Federal Government, and lastly, the preservation of the industry.

Not that the perservation of the industry was not of any great concern, it happened to be last on the priorities. We feel that it is a blend of these provisions that is going to be the best solution.

Mr. **Weaver**. Termination is something, as far as you are concerned, that should be considered?

Mr. **Rutherford**. Termination is something that, as you stated previously, puts the timber back on the market for all to bid on and we have considered that, yes.

Mr. **Weaver**. Thank you.

The gentleman from Louisiana.

Mr. **Huckaby**. Thank you, Mr. Chairman.

Just briefly, what percent of each of your county's operating budget revenues comes directly from the Forest Service?

Mr. **Rutherford**. Mr. Huckaby, of the general fund revenues, of course none of ours comes from the Forest Service. Ours goes strictly into roads and 100 percent of that.

Mr. **Huckaby**. I mean your entire county operating budget now.

Mr. **Rutherford**. Taking into consideration all the Federal Forest Service receipts, up to this year, a third of the general operating budget, this year due to reductions, it amounts to about one-sixth.

Mr. **Huckaby**. Thank you.

Mr. Coates.

Mr. **Coates**. Yes, in our county, we separate our general fund from the road fund. Part of that has to do with State law, but the forest reserve fund finances about two-thirds of our road department, none of that coming from the general fund currently.

It finances about one-fifth of the school budget. The reserve funds do.

The school district now is gasping from about a $1 million reduction in their normal income from forest reserve moneys and that is having direct impact on teachers, athletics, many classes are not being offered, and it has been a massive disaster for them, budget wise.

Mr. **Huckaby**. Thank you.

Mr. **Weaver**. Thank you very much. We appreciate your testimony very much.

The Chair will call Ms. Diane Davidson, White City, Oreg., together with Mr. Skip Stock.

We are simply running out of time. We will have to limit the testimony to 5 minutes and if your prepared statements are longer, would you please summarize and we will put the entire statement in the record.

STATEMENT OF DIANE DAVIDSON, OWNER/OPERATOR, BIG BEAR SHOPPER, INC., WHITE CITY, OREG.

Ms. **Davidson**. Thank you. I am Diane Davidson and I operate Big Bear Shopper, which is an automotive, hardware, and sporting goods store in White City, Oreg.

I am not here to support or oppose this bill. I am here to hopefully convey to you some severe problems which exist for a business in a timber dependent community.

White City is the industrial center of Jackson County, Oreg. There are 20 lumber mills and remanufacturing plants located there. Most of these operations are running at curtailed rates, and several are completely shut down.

The unemployment rate in the surrounding residential areas is in excess of 25 percent—the past 3 years have had a devastating effect on White City.

I am not an economist, but I think I understand the timber industry's problem.

The high interest rates, resulting largely from Government's competition for money to support deficit spending, have killed the housing market.

Skepticism over raw material supplies, double-digit inflation, overoptimistic market predictions, and the relative financial ease with which timber can be held, led the industry to bid unwarranted prices.

I am not naive enough to believe these bills alone will correct or even significantly change our economic condition. This cannot happen without stimulating the entire economy.

I even have to question legislation which would permit termination of legal contracts.

But the one thing I do see is a need to give all of us something to look forward to—a reason to hang on—because, when the demand for forest products returns, the industry must be free to respond and become productive once again.

If our mills and their supporting industries are dead and gone—what then? How long can people continue to survive while we search for diversification, an activity which requires several years to produce noticeable results.

Even with my reluctance to support this type of legislation, it is time for action.

The timber industry needs help—the housing and construction industry needs help, and we need help. Where else can we look except to you—we can no longer waste time trying to affix blame.

We all need something to look forward to—a reason to survive.

When I found out I was going to be here, I called on several local businesses and associations to provide me with documentation of the economic devastation in our community.

Their willingness to cooperate was absolutely overwhelming. I have enclosed a few of their letters with my testimony.

Everyone wants to tell his story, and rightfully so. I wish they could have all been here.

For example, Jackson County Federal Savings & Loan Association informed me that real estate defaults and repossessions have climbed from $143,000 for their year which ended June 30, 1979, to $1,442,000 for the year which ended June 30, 1982.

Their delinquency rate for accounts 90 days and over has risen from $871,000 for the 1979 year end to $5,334,000 for the 1982 year end.

These figures represent just one of our many lending agencies.

People and businesses are reaching the end of their ropes. In an attached article, you will note that unemployment in five Oregon counties is approaching 25 percent.

That is a lot of men and women out of work. Another example is provided by Pro West Real Estate. For the month of February 1980, the closings in Jackson County were $10.6 million. For the month of July, this year, that figure is down to $4 million, a 62-percent decline.

How can people cope with the news and economic predictions which talk of no recovery until 1984.

I built my store from the ground up.

In June 1977, we opened and struggled as all businesses do. We reached an annual sales volume in excess of $800,000 until October 1979, which marked the onset of the timber recession.

Since that time, we have been in a decline, both my business and the community. I have been forced to refinance my building, sell off assets to cover losses, and my payroll has gone from $10,000 per month to $2,000 per month.

Today, almost 3 years later, I sit with a $300,000 loss carry-forward, and no more assets to sell.

My business won't be here in 1984, and neither will a lot of other business, large and small

When does Government start playing by the same set of rules we do? We have cut back until we can cut no further. Yet the big issue in Congress is tax increases to meet uncontrolled deficit spending.

How much more do you expect me and thousands like me to bear? More important, just how long do you think this Government, with all of its necessities, can exist without me?

The bills are not the solution. The only solution is economic recovery. Every day, I see people come into my store with the most defeated attitude I have ever observed. These people need a reason to look ahead to a recovery.

We are talking about a Band-Aid job, but many times the first step in saving a life is to stop the bleeding.

My community has been devastated.

We are on the brink of depression.

We need help now.

Thank you.

[The attachments to the statement are held in the file.]

Mr. **Weaver**. Thank you very much for a very moving statement. I understand the people you are talking for as well.

Mr. Stock.

STATEMENT OF JAMES F. STOCK, CLEAR LUMBER, SWEET HOME, OREG.

Mr. **Stock**. It's been a long day, so I will abbreviate and summarize my testimony which is offered for the record.

I am the second-generation lumberman, I represent the smaller segment of the industry, a family company. My mother and father formed that company after World War II and struggled through this business for the last 35 years riding the ups and downs.

We are gamblers, 100 percent of our assets are always pledged to the industry, the only thing we know.

We also live in a part of the country where we purchase exclusively our raw material from the Federal Government. We are small, but regular customers.

We also have two sawmills and companies that are 100 percent dependent upon the survival of the timber industry. This is where our major concern is.

We didn't buy a lot of expensive Federal timber because we couldn't afford to play the game. So whether you do anything or not doesn't really mean whether my family will survive or not. But it does my neighbors, the children my kids go to school with.

A thousand yards from my house, a plant sits inactive that had employed 140. That is food on the tables of the people that I play with, I go to church with, that I live with. That plant is not going to run until something is done in the industry.

Another difficulty that is not in the discussion has to do with the concern of our company and others like us, our emerging precarious position with the bonding companies.

The necessary financial liaison between the purchaser of Federal timber and the receiver, the U.S. Government.

As this economic crisis in the wood products industry continues, all companies with large volumes of expensive timber under contract continue to have even a greater obligation to the bonding company.

Mr. Rutherford made it sound so easy, we could just pay the liability. That liability alone would break many companies, including medium-sized public companies.

So it is becoming difficult to do business with sureties who are running from this business, which means if we had to pay 100-percent cash up front for all of our timber, we would have no operating capital and we would go broke.

This past year, I have spent hours with this industry struggling to develop a consensus of how we get out of this situation so we can save an industry as well as supporting communities that are dependent on us being a stable industry.

Companies of all sizes share together in this. I was proud of the ethical sensitivity of the industry, the willingness of men to work toward a higher good than just their own vested interests.

It was not an easy process. There was a lot of intense anger, frustration, hostility. These good men have stayed with the process as they are today trying to work out a compromise.

And the one we worked out, no one really liked in many ways, but we felt it was one we could live with. By mid-July, the industry had agreed upon this proposed legislation, by and large.

As of this moment, the legislation generated out of this painstaking patient process has not really yet been introduced.

The bill was a true compromise as stated earlier and no isolated segment of the industry is totally happy, but we can live by it.

I realize the difficulty of convincing this committee in a few short hours what took us a year of painful process to arrive at and that we struggle with yet.

We are not asking for a bailout or free ride. The truth is you are just not going to get your money. The timber industry is not totally responsible for the economic recession that makes it impossible for American families to build houses or buy cars or for the high unemployment rate.

The conditions which we committed to these contracts no longer exist. We need a fresh start, a renegotiated agreement with the seller of these goods, the U.S. Government.

If this cannot be arranged, there will be untold casualties in our industry, very few survivors, very few customers to purchase the resource that you plan to sell in the next couple hundred years.

I plead careful consideration.

[The prepared statement of Mr. Stock appears at the conclusion of the hearing.]

Mr. **Weaver**. Thank you very much for again a very, very moving statement.

Thank you for speaking for the neighbors that you do. Your message couldn't be more clear. I don't need to ask questions about it.

We have a vote on the floor. We will recess for a few minutes to make that vote.

[Recess.]

Mr. **Weaver**. The subcommittee will be in session.

I will call Mr. Cheek at this point.

STATEMENT OF GEORGE C. CHEEK, SENIOR VICE PRESIDENT, POTLATCH CORP., SAN FRANCISCO, CALIF.

Mr. **Cheek**. I am senior vice president of Potlatch Corp., headquartered in San Francisco, but we operate in Idaho, Arkansas and Minnesota.

We do buy substantial quantities of timber from other ownerships including the Federal Government. Many viewpoints are offered in these hearings but I believe that we are agreed on three things. First, that the whole industry is suffering from the housing depression and second, only an improvement in that market can improve conditions in a meaningful way. Finally, none of the solutions being offered provides true equity.

The debate over the legislative proposals before this committee illustrates this last point, but it already is clear in the relief measures now in effect.

California, Oregon and Washington have modified the application of timber contracts on their lands to help manufacturers in those States. The Forest Service has liberalized its extension policy, eased its deposit rules and, in at least one area, offered short-term sales. The Bureau of Land Management, on a de facto basis, has provided the same benefits to its buyers. There have been positive results—but also negative ones for our industry.

On the positive side, extensions have bought time for everyone who has used them. In the Douglas-fir region, this has helped increase the uncut inventory for companies there. I list this on the positive side because buyers there still are contracting for Federal timber at high ratios. Prices in the last 6 months have been bid about 100 percent above the appraised price, on an average basis.

Finally, on the positive side, these short-term sales apparently have allowed some mills on the Pacific coast to reopen.

The negatives have affected other regions. Our own mills in Arkansas are feeling pressure from western production, but other witnesses here have far more information than I do about the South. I understand they are here and would be eager to testify.

We have 15 wood products operations in Idaho. The latest report I have shows five of them shut down and the others, including three plywood operations, on curtailed schedules. About a third of our employees work full time, about a third have some part-time work and the remainder are not working.

Plywood from the reopened mills on the coast now is coming into our markets at a price nearly $20 a thousand square feet below what we can accept. We may have to close more plants and reduce our Idaho employment even further. Other inland mills probably face the same prospect.

Some witnesses have suggested there is an industry consensus on relief measures. A consensus requires at least grudging agreement from all the parties, and I think it is clear that there is no agreement of that kind.

There have been a number of proposals that support outside the Douglas-fir region. Each of these efforts at compromise was rejected by the proponents of termination and price rollback.

There are three elements in the proposed legislation. They include contract term adjustment, as well as authorization for broad and unspecified programs of both price rollback and contract termination. The advantages and disadvantages are similar to those of present relief efforts, but have enormously greater impact.

The advantages of price rollbacks would be greatest on the coast of Oregon. One industry estimate puts the advantage at 81 percent, and the Congressional Research Service puts it at 65 percent. The purpose of this measure is to allow more coastal mills to operate, and they would operate.

The disadvantage would be felt in every other region of the country. The market for products is inelastic and the coastal mills would take employment and markets from others, and countries there on the coast would benefit at the expense of all other timber-dependent counties.

The list for contract termination is similar, but longer.

We are told that some mills, especially on the coast, face bankruptcy without termination. I certainly don't argue with that. Presumably, they would survive—but would mills elsewhere then face bankruptcy because of lost markets? Other companies in that region would escape default, and reduce the average price of their inventory. The affected region would face a more optimistic future, and we would avoid any possibility of a glut of timber being thrown on the market from defaulted sales although the likelihood of this is very small. The argument is made that this could protect the values of timber owned by private individuals.

The negatives are substantial.

The cost is high. The proponents of termination presumably would use a conservative figure, but they put the price to the Government at $1.05 billion for terminating just 40 percent on the west side of region 6 alone. The Forest Service estimated its losses would be $1.3 billion. This does not include BLM figures, which may account for the Congressional Research estimate of $2.6 billion.

Even a fraction of that sounds like a lot of money. While the positive impact is highly localized, the negatives are widespread.

A Forest Service analysis indicates that private owners in all areas would lose values and income, and that the Douglas-fir region would gain both markets and employment at the expense of all other softwood regions of the United States.

The Congressional Research Service concluded that the Douglas-fir region would receive $2 billion of the estimated $2.6 billion in benefits—and that this region was not the hardest hit in the country. Areas outside the Douglas-fir regions, according to CRS, would suffer even more than at present.

Some of the same reasoning can be applied to contract term adjustment.

Adjustments would be of some value in every public timber region, and would provide time for the market to recover. This would avoid defaults, with its possible flooding of the market with resales, and the financial penalties to be paid by defaulters. It would also preserve the value of both Government contracts and timber owned in the private sector.

The disadvantages come from a strengthening of the economic position of some coastal mills relative to mills elsewhere, and a reduction of the future market demand for private timber. This probably would hurt values. This largest negative, however, may be in the continued buildup of swollen inventories by west coast mills. Their objective is to reduce their inventory, they claim, but they are building inventory by buying large quantities of timber—much of it surplus to their present needs—and are bidding at average ratios close to double the appraised prices. For the first 6 months of this year, the largest three buyers of BLM timber in Oregon paid nearly double the appraised price. On western Oregon Forest Service land for that period the largest volumes were purchased by companies whose bids averaged 2.3, 2.5, and 2.2 times appraisals. In western Washington, comparable figures for the top three were 4.7, 6.9, and 2 times the appraised prices. Inventory building obviously has value, if bidders are willing to pay those prices today.

Contract term adjustment, in addition to protection from default, will preserve that inventory, giving manufacturers in the coastal region a huge overhang they can throw on the market when conditions improve. The South has asked for a cap on sales, but attempts to agree on a figure have failed.

Why not set a temporary cap equal to the annual allowable cut in region 6—but subtract from it a volume equivalant to the extended sales that mature in a given year? This would allow them to retain their inventory, but would protect the rest of us from a huge buildup.

We believe that price rollbacks and contract termination are so grossly inequitable they should be rejected, especially in the undefined form now offered. We support contract term adjustment as the nearest thing we have seen to equity.

Mr. WEAVER. You mean extensions?

Mr. CHEEK. No, I don't. Extending and adjusting the term are two different things. If the contract is extended you have to pay a deposit where at the moment you have to pay interest on what that deposit should be. If the term is adjusted, you don't have to make those payments. You can keep the contract without paying additional sums of money.

Mr. WEAVER. Mr. Cheek, unfortunately, I have to go vote again, but can you explain to me why your testimony—you are a very prominent corporation within your industry, highly regarded—why is your testimony differing from most of the other testimony?

Mr. CHEEK. I can tell you very easily, Congressman. Among the people who have testified today we are the only one who does not operate in Region 6.

Mr. WEAVER. Very good.

Mr. Cheek. All the others do. We believe that the benefits would be disproportionate just to the west side of Region 6.

Mr. Weaver. But these people are going bankrupt.

Mr. Cheek. So are we. The problem is one of an inelastic market. If a mill in Roseburg is able to open and serve a market that will not grow, then presumably a mill in Kamiah or Arkansas will have to close because there is no more market to absorb the product.

We do feel that something should be done. The difficulty has been in trying to figure out what it is that would do the least damage in some areas while providing some benefit in the areas it applied.

Mr. Weaver. You can understand how we want to keep some of our industry in our area alive.

Mr. Cheek. So do we.

Mr. Weaver. Mr. Cheek, thank you very much. I appreciate very much your forthright testimony.

We will have to recess again to vote.

[Recess.]

Mr. Weaver. The subcommittee will be in session.

We have just a limited time. The Senate committee will be meeting shortly on this, too, I understand.

Mr. Williams, for Southern Forest Products Association.

Thank you, Mr. Williams, for being so patient. We appreciate your appearing here today.

Won't you proceed, please.

Mr. Swift is not here?

Mr. Swift. Yes.

Mr. Weaver. You come up, too, Mr. Swift.

STATEMENT OF HARRY WILLIAMS, PRESIDENT, SOUTHERN FOREST PRODUCTS ASSOCIATION, NEW ORLEANS, LA.

Mr. Williams. Mr. Chairman, I am Harry Williams, president of the Southern Forest Products Association which has a membership of about three-fourths of all the pine products in the South, also the chief executive officer of Williams Forest Products Corp.

Let me say that you have prepared written statements and I will not go through all of that. I would like to make a few points.

Mr. Weaver. Very good. Without objection your full statement will be placed in the record.

Mr. Williams. First of all, I wouldn't come all the way from Texas if we didn't have a genuine concern for the devastating problem at hand and a real desire to be a part of the solution.

We feel very strongly that one thing we do not want if we can possibly divert it, would be mass defaults. Our position has been one that we could support up to 40 percent termination provided that they put some kind of cap or some indexing system on region 6 to tie sales program to a housing index, or do something to tie the sales program to what the demand really is instead of in times like we have right now. I will cite you an example.

Next year the proposed budget in that region is 5.4 billion feet. That is enough production to sustain 2 million housing starts, and a 2-million housing start market would be covered. The best suggestions or projects, for housing starts, is 1.2 million housing starts.

What happens to us in the South—and bearing in mind we want to be a part of the solution, we want to help—we have 2½ million private, nonindustrial landowners who furnish the timber for our mills in the South.

The Federal Government can drop the price of timber in 1 year's time as it has in the West by 80 percent, actually timber was selling about 20 percent of what it was a year ago. But our big problem is in the marketplace. The market is just not there to absorb the product, but we don't have that luxury in the South.

Most people that own the land have grown the timber, paid taxes on the land, just are not going to sell their timber for 80 percent reduction and in a 12-month time.

So we want something to keep such a large surplus volume being put on the market so that it will not undercut or undervalue our private nonindustrial landowners in the South. That is as simple as we know how to put it. In return, we support the 40-percent contract termination and also we support contract term adjustment.

Bear in mind, following what Mr. Cheek said, there is a broad difference between contract term adjustment and extension. Everybody wants contract term adjustment because it doesn't carry any penalties, you don't have to pay for any reappraisal, you don't have to pay interest on the deal and the operators do not need any further financial burdens.

So we support contract term adjustment and not extension.

Mr. WEAVER. Would you agree to a somewhat higher than 40 percent termination?

Mr. WILLIAMS. Mr. Chairman, our association position—and I speak for them—is 40 percent. I think that we—well, you mean me personally? I am one of those entrepreneur guys that believes that I wouldn't mind just sweeping the slate clean and letting everybody start off from a competitive standpoint. But that is not the southern position. So I am conveying to you the 40 percent that we agreed to.

Mr. WEAVER. I appreciate very much your answer.

Mr. WILLIAMS. One other thing I would like to comment on, heaven forbid that we come up 10 years from now in another down market and find ourselves back here. I strongly urge you guys from the West to get some reasonable equity in these sales so that will do away with the speculation.

In the South when we buy private, nonindustrial timber we pay for it and right now we are cutting high priced timber and losing a lot of money because if we don't cut the timber we lose everything we got in it. It is our firm conviction that if there was a larger equity position in these Government sales, something at least 10 percent, that there would not be nearly as much speculation because the operator just simply wouldn't buy anything he wasn't planning on cutting in a reasonably orderly fashion.

[The prepared statement of Mr. Williams appears at the conclusion of the hearing.]

Mr. WEAVER. I appreciate that, Mr. Williams.

There is another vote on the floor. Could we go to Mr. Swift and we will be able to finish.

Mr. SWIFT. Mr. Chairman, if you need to go to your vote, I perhaps can testify tomorrow.

Mr. WEAVER. Why don't you go ahead right now?

STATEMENT OF G. ROBIN SWIFT, JR., PRESIDENT, SWIFT LUMBER CO., ATMORE, ALA.

Mr. SWIFT. I am Robin Swift, president of a family owned lumber company in Atmore, Ala. My company employs about 100 people and is probably typical of many other southern independent lumber manufacturers.

In 60 years of existence my company has never bought a national forest sale. We own very little fee lands so nearly all our raw materials are purchased from individuals, corporations and State governments, which are short-term sales and are nonterminable. So obviously we don't have a direct axe to grind on the issue which is the subject of this hearing.

Mr. WEAVER. I have read your statement, Mr. Swift, and it will be placed in the record without objection.

[The prepared statement of Mr. Swift appears at the conclusion of the hearing.]

Mr. WEAVER. Would you give us the salient points?

Mr. SWIFT. Let me quickly get to the meat of it. Before I do that, I would like to challenge Mr. Ehinger's earlier statement that may have given you the feeling that the South has not had the same sort of market suffering and unemployment and production cutbacks that the West has had.

We have had approximately 35 percent—and still do—approximately 30 to 35 percent of our productive capacity is down, 33 percent of our people are off, and we have had severe price cutbacks. We are not traveling at the top of our market as you might have been led to believe.

In our company, 2 by 4—16's and I speak for my company and nobody else, in 1979, September, brought $340 a thousand; today we list them for $240 a thousand and we are not sure we can get that.

So don't get the impression that the South has not felt the same economic impact.

The thrust of my testimony, Mr. Chairman, is that simply in Forest Region 6 the Forest Service has sold and continues to sell from 1975 forward and most particularly in the last 2 or 3 years a great deal for timber than the market has been able to absorb.

That sale is running at 5½ billion feet a year, the market is a 3½ billion foot market, approximately, and that type of sales program can only depress the price in the West. When it does it gives them a competitive advantage in our marketplace that severely impacts us and keeps us from being able to operate. It threatens our survival.

We simply don't need legislation at this point in the game that will make our survival even tougher. We have done everything in our company we know how to do to survive and we would like to not have any help from the Government that is going to make survival even more difficult.

Mr. WEAVER. Thank you very much.

I have to go now. If you do wish, I understand, Mr. Williams you are leaving, but if you wish to testify tomorrow, fine, but we have your statement in the record.

Mr. Swift. If you have the statement, Mr. Chairman, I think that does it.

Mr. Weaver. Thank you very much.

Mr. Williams. Do you want me to wait for questions; I will be happy to wait until you get back.

Mr. Weaver. Fine.

[Recess.]

Mr. Weaver. The subcommittee will be in session.

Thank you for staying, Mr. Williams.

It is my opinion that we can fashion a bill that meets the objectives of most if not all the people directly involved from all sections of the country, and companies of all sizes because the South doesn't want massive amounts of timber dumped on the market driving the price of your own stumpage down and nor do we. Nor do we.

We want a reasonable price and that is the key. We all know it is basic fundamental markets that determine the business, but don't you see outlines of a bill that we could pass and you could support that would be safe to everyone you have heard today?

Mr. Williams. Oh, I think so, Mr. Chairman. I don't think there is any question about that, about a bill being able to be formulated, something the South would be willing to get behind and support. We certainly want to be a part of the solution and help get the job done.

The one thing that I don't know, you know, it disturbs me personally is how long it will take to come about. But economic recovery is the only thing that will get our industry out of the woods.

Mr. Weaver. Absolutely.

Mr. Williams. Absolutely the only thing. I would say if we don't get interest rates down, get an economic recovery under way and see homebuilding starts return to a level at least 1.5 million, which would still be 25 percent under what the government projects are. Government projects were in the 2 million area, we got geared up to the 2 million and we are running at 50 percent of that.

But I would say if we don't get to the 1.5 million starts in homebuilding within the next 18 to 24 months then we are going to have about 30 percent of all our solid wood plants by the wayside.

You know the attrition is there. We just geared up to produce a lot more than the market would take. We are going to have a lot of attrition. The only thing that will keep that from happening is to get our economic recovery and get our markets back. It will have to happen quickly.

Mr. Weaver. I hope so. I certainly hope so. There hasn't been much testimony here today for the ineffective road credits. I notice in the bill you agreed to or generally felt was satisfactory to you there were effective road credits.

How strongly do you feel on that?

Mr. Williams. We don't have any problem with road credits as long as they are within the region. We don't want them shifted from one region to another.

Mr. Weaver. You wouldn't mind if they stayed within the individual forest, would you?

Mr. Swift. I think that would be even better.

Mr. Williams. That's right.

Mr. Weaver. I assume that you would go with more than-40 percent termination if we could assure you that we were not going to dump a whole bunch of timber on the market on you?

Mr. Swift. Mr. Chairman, how can that best be assured? We are faced in the South now, and you know the figures probably better than I do, with Canadian competition that is unbelievable, and it is subsidized competition by the Government of Canada; they are now anywhere from 30 to 50 percent into our market, depending on what Southern State you go into.

It doesn't matter to us when a carload of lumber comes in there, to me as an independent operator, it doesn't matter where it comes from. If it is subsidized by a government selling timber at far lower prices than normally would be the effect if the thing were on a supply-demand basis.

Mr. Weaver. I think the Canadian policy is disaster for us, them, everyone; it is crazy.

Mr. Swift. How can we avoid the same thing happening with the Forest Service marketing far more timber than the market takes up in the Pacific Northwest?

Mr. Weaver. We should figure a way, yes. You suggested a cap. There have been other suggestions. I have no particular magic number now. I am trying to get that out of these hearings.

Mr. Swift. That cap, Mr. Chairman, was a temporary situation for 2 years.

Mr. Weaver. Yes, I know.

Mr. Swift. It seems to me there ought to be flexibility built into the program somewhere so the American people in those years when housing is good and the demand is there, and the American people should be able to enjoy the use of some lumber without paying exorbitant prices and the Forest Service ought to be able to market far more than they do in a bad year.

In other words, it ought to go up and down as it does in private industry when the South—when we go to the marketplace and start to buy timber from Mr. Landowner, if it is a down market and he is not getting what he thinks he ought to get for the stumpage he simply doesn't sell that year.

Mr. Weaver. Yes, I know.

Mr. Swift. Next year when the market is good, maybe he sells twice as much. That is the flexibility that you are going to have to have in order to protect the consuming public and take care of our concerns.

Mr. Weaver. It is an idea that certainly should be explored, yes.

You know, the industry in my area of course is just absolutely—it goes berserk when you mention the Forest Service selling the logs. Naturally they want to control their other harvest and I have always of course supported them in that.

But I am curious to know what you would think in terms of having the Forest Service sell the logs and do that on the basis of how much they are needed.

Mr. Williams. I didn't understand the question, Mr. Chairman.

Mr. Weaver. Selling the logs.

Mr. **Williams**. Since I don't buy Forest Service timber, that is beyond my experience; I don't have an answer for that.

Mr. **Swift**. All we need, Mr. Chairman, the real nuts and bolts of this thing is that we know that probably we are going to have some attrition in our industry and that would be in the next 2 years.

Now, if that attrition is 20 percent, 30 percent, 40 percent, whatever it has to be to get things back together, then it ought to be shared equally in the different regions of the country according to what their production is.

Mr. **Weaver**. I agree.

Mr. **Williams**. What could happen to us, Mr. Chairman, and this is something that is a fear of the South, what could happen to us if we had massive termination in the West and the Government continued to put large sums of timber on the market out there for in excess of what the cut and what the need is, then those mills would continue to be able to operate at a break even because the Government's continuing to let the price come down where in the South we don't have that luxury with the private, nonindustrial landowner.

Most of the guys are pretty financially strong. If the timber doesn't bring a good price, and regardless of what the market is, they just won't sell it.

So that attrition that we are definitely going to have in our industry if we don't get some economic recovery fast, the major portion could be shifted to the South by the simple reason that the Government being the very largest timber marketer in the Nation, has the ability to pretty well control the price.

In other words, they would sell a large enough volume to force that price on down regardless of whether anybody else comes down or not. Do you follow me?

Mr. **Weaver**. Oh, sure, of course.

Mr. **Williams**. In fairness we are sympathetic with the West; we want to try to help keep our friends out there in business; we want to be part of the solution, but we don't want this projected attrition that we all believe will happen to have to absorb more than our fair share in the South.

We are willing to absorb our fair share but we don't want the Government to shift the burden unduly to us.

Mr. **Weaver**. Mr. Williams, I understand that very well. I am very sympathetic to you, and I think you have been very, very good and sympathetic about it.

Right now, however, it is the opposite. We are going to take the attrition if we don't get out of some of these contracts. That is the problem. We are going to suffer by far the largest amount of attrition. That is what concerns us.

Mr. **Williams**. Well, in fact a contract term adjustment which we support very strongly, which is something that could be implemented quickly, do you not agree if we could get a 5-year contract term adjustment to buy a little time and see what the marketplace is going to do, and in all fairness, Mr. Chairman, if we don't get a reasonable market recovery, then 40 percent is not going to do it.

Mr. **Weaver**. I know.

Mr. **Williams**. Sixty percent is probably not going to do it. But I think it is very, very important that we do provide enough relief for the operators not to throw them into massive default. Nobody wants that to happen. We, in the South, certainly don't want that to happen.

But I think that is the one provision that everyone agrees that there has to be some time allowed. It ought to be in the form of a contract term adjustment so that there won't be any penalties, any payment, and then if you want to put some termination time in there, some percentage of termination in there, with some kind of cap or some indexing that will control the sales program, to what the real demand is out there f course, so we won't swamp the market, then I think the South would certainly support you.

But we will not support rollbacks. We find no way that rollbacks can be equitable.

Mr. **Weaver**. Very few people are supporting rollbacks. I see small support for that. So we are in agreement there.

You have to understand that I represent my industry out there which is, of course, without them I have no economy in my district. I represent the largest timber district in the United States, southwest Oregon, the Fourth Congressional District of Oregon.

But I also represent the workers, and contract term adjustment or extension doesn't put them back to work. I need to get my industry not only free from these contracts that will bankrupt them, but also to keep timber at a price where we can compete with you but not put you out of business.

If attrition is to come—I hope to it doesn't—but if it comes, I want it to be even. I completely and absolutely believe this That is the way I operate. But contract term adjustment is not going to put my workers back to work. That is what I have to be concerned about. I have 30 percent unemployment in my district.

Mr. **Williams**. Mr. Chairman, we have in our industry 30 percent now. Your district, I assume, is primarily the forest products industry's work. The largest one. But our industry in the South, we have 30 percent unemployment.

Mr. **Weaver**. You have it in the industry. I have it in my district, all people.

Mr. **Williams**. But let me say this, I am sympathetic to your problem and I am up here trying to help.

Mr. **Weaver**. I know you are and I appreciate that.

Mr. **Williams**. But you also have to understand that the only way we are going to get out of this box that we are in, you, me and all of our industry, our country, is to get an economic recovery started as quickly as possible because what would happen now if you in region 6, say we got a 100-percent termination out there, and the Forest Service went on and sold 5.4 billion feet out there which would go at nearly salvage value, like 20 percent of what it was going a year ago, that is an 80-percent reduction, what would happen? Some of it is happening now. It would be done on a massive basis then, of course.

All of your mills would crank back up and get to rolling and all of that lumber would be sold and my lumber yards in the South and my mill, we own usually both the mill and the yard, but in many cases our yards can buy from the West more competitive than from our own mills.

Now we would have that on a massive basis if all of your mills got started back up, because the private nonindustrial landowner will not let the timber come down that fast. So our mills would not be able to compete.

Mr. **Weaver.** I understand what you are saying.

Mr. **Williams.** That would shift all the attrition to the South. What I am here for is to try to get something that will help you get enough of your people back to work, to get you out of jail and at the same time not overrun my people because if it becomes an overriding situation, you know, the South is going to vote against it. We don't want to do that.

Mr. **Weaver.** I assure you for two reasons: One. I got the Southern votes that I have to deal with; it is the hard politics of it. Two. I want to fashion something that is fair. I absolutely assure that whatever I think of, whatever part I play in this I want to be fair. I absolutely assure you of that from my heart because that is the only way I think you can put a real solution together. So thank you very much.

Mr. **Williams.** Thank you, Mr. Chairman.

Mr. **Weaver.** One more witness. I understand. Mr. Gus Kuehne, Mr. Gary Jones, Mr. Jim Manke.

STATEMENT OF M. J. KUEHNE, NORTHWEST INDEPENDENT FOREST MANUFACTURERS, TACOMA, WASH.

Mr. **Kuehne.** Thank you, Mr. Chairman.

I will summarize my statement, hoping it will be included in the record.

Mr. **Weaver.** Without objection it will be placed in the record.

Mr. **Kuehne.** I hope I can say a few words you have not heard, and that will be very difficult, I am sure.

I am glad you did put the people from the South on before us. I thought their statement was very statesman like and added a great deal to the hearing today.

I am pleased you did hear them today.

The year of 1982 and 1981 may be looked on in the future as one of the good years in the forest products industry compared to what could happen if this legislation is not passed in the Northwest.

We are not anxious to take away market share from other reasons of the country. We are, however, anxious to keep from further declines that could occur if we have housing levels at the level we have this year into the future for several years.

I said a year ago things can't get any worse and I was wrong, and I don't say that anymore.

Mr. **Weaver.** No.

Mr. **Kuehne.** There has been a lot of talk of unemployment and who got it worse. I just say in the State of Washington, we are second only to Michigan in the rate of unemployment overall and very close to that—that was a month ago. I am not sure of the current figure. We have been running second or third for about 6 months now and very close to that in Oregon.

It is not only a decline in forest products but aerospace is having difficulties almost as bad as that of the forest products industry.

I would like to say that one of the problems that has not been brought up here that illustrates the wisdom of moving toward termination is that there is a lot of timber that was blown down in 1979 in storms, and 1978 and 1980 as well, but in 1979 we had what we call the Lincoln Day storm, blew down the Hood Canal Bridge in Washington and a couple hundred million board feet of timber, of which 100 million was on national forest lands and from the numbers I have received recently there is about 70 million board feet of that that remains unharvested at this point and if it is not harvested, Mr. Chairman, within the next year, it likely will be unsalvageable because it is hemlock and it is subject to decay.

Mr. WEAVER. That is an excellent point. I am glad you brought that up.

Mr. KUEHNE. The State of Washington—it was one of the major points that brought the State legislature in the State of Washington to allow termination on State lands and the legislation that passed there is a combination of termination and extension that is similar to the bill that is proposed by the industry here as a compromise bill. We support that bill.

From the testimony you have heard, I think that you understand how that came about. At least it was brought out into the public the varying viewpoints for termination, extension, or whatever and the reason that that compromise was developed.

We testified, Northwest Independent Forest Manufacturers Association, my president testified at your hearing back here a year ago in support of the bill that you introduced with Congressman AuCoin for all termination.

Mr. WEAVER. Yes.

Mr. KUEHNE. We would still support that but what we need is legislation that will pass and for that reason we now support the industry compromise bill.

I would say about Mr. Cheek's statement, if I could, a couple things. It illustrates that unanimity is not possible. There are always some who will not be brought into a coalition or compromise to support legislation.

In addition to Mr. Cheek's reasons for not supporting the compromise, I would suggest to you that Potlatch is a major forest landowner who has considerable volume of timber of their own and it is understandable from that standpoint that putting more Federal timber back in does not—the major private landowners who you have not heard from either, would not likely champion—and many of whom would not publicly support—though they may not come out publicly and state that.

[The prepared statement of Mr. Kuehne appears at the conclusion of the hearing.]

Mr. KUEHNE. Now I would like to have Mr. Jones discuss his company, Summit Timber.

STATEMENT OF GARY JONES, VICE PRESIDENT, SUMMIT TIMBER CO., DARRINGTON, WASH.

Mr. JONES. I am vice president of Summit Timber Co., in Darrington, Wash. Darrington is a small community of 1,000 people nestled in the Cascade Mountains 80 miles northeast of Seattle. Summit is a family-owned corporation founded 40 years ago.

I am here today not only representing Summit Timber Co., management, but also our employees and the town of Darrington. Our concern here is the same as other mills in the Northwest—survival.

You are well familiar from problems in your own district of the problems that have arisen. I support the bill. I have feelings neither way; it could go up or down. My concern is that there be something done. Effective purchaser credits and contract term adjustment have no effect because we do not have the problem in our area. Until recently we have had a couple that were deficit sales.

Mr. WEAVER. You would not push for effective road credits, would you?

Mr. JONES. I support it. The principle of the condition is that those roads are not only used for one timber sale but many. To pay in one timber sale does not make the best sense. I would like to say that our bidding problems arose basically because I mentioned here, two factors; decline in supply and inflation.

The decline in supply was caused basically by land use studies and wilderness studies and just an uncertainty. Inflation was a fact of life. Our product, we had seen our product double and almost triple over a period of time and we felt that to be competitive we had to use those inflationary factors in our bidding and even today if things had stayed the same we would not be here.

Some may say that we took a gamble and lost so why should we get relief. My answer is we were under a policy established by past administrations but now we are forced to harvest under a new administration with new fiscal policies. We support the President and we hope that the industry can survive.

We need the chance, however, to harvest timber under these new fiscal constraints and policies established. We feel that passing the bill gives us that chance. It keeps our timber supply from being tied up in the courts as a result of defaults and bankruptcies resulting from damages. We have 185 million board feet of Forest Service timber under contract at a delivered log cost of $360 per thousand board feet. On today's market, that same quality log can be delivered for $250 per thousand board feet.

The $110 difference would create a loss of over $20 million for Summit Timber. That, added to losses of more than $10 million in 1981 and 1982 would equal our net worth. From that statement, you can see that maybe I should clarify, the losses occurred because we performed on our contracts. We felt we had an obligation and we did perform where a lot of purchasers didn't.

We did. They felt the Government would help eventually. But I think that once you realize the value of those contracts and what it will cost the companies, you can see why we are so concerned at this time. Our 450 union and salaried employees have done their part by taking a 25-percent cut in pay. This helped our cash flow stay fairly level throughout the past year.

If we are forced to operate those contracts we have no choice but to close our doors. Thank you for this opportunity.

Mr. WEAVER. Would you care to testify, sir?

Mr. MANKE. I am, Mr. Chairman, James Manke.

Mr. **Weaver**. Without objection, your statement will be placed in the record.

STATEMENT OF JAMES D. MANKE, GENERAL MANAGER, MANKE LUMBER CO., TACOMA, WASH.

Mr. **Manke**. I am James D. Manke, general manager of Manke Lumber Company, Tacoma, Wash. Our company was founded in 1950 when we began with a small portable sawmill. In 1965 we built the Tacoma sawmill and in 1979 completed renovation of a new mill in Sumner, Wash. Our company grew from less than a dozen employees in the 1950's and early 1960's to 367 in 1979. My brothers, Chuck, Virgil and I built Manke Lumber Co. into the fifty-third largest lumber producer in the United States in 1979. We manufacture lumber, from private lands and national forest timber sales. The vast majority of the lumber we have manufactured was sold in the United States.

Our problems are the same as you have heard from just about everyone who has testified. The price of lumber is extremely low, lower than the logging and manufacturing costs, and the timber prices are high. If you want to call wreckless bidding, it could be that. But you have to have timber to run your saw mill.

Mr. **Weaver**. Sure.

Mr. **Manke**. The company, we don't want to isolate or insulate ourselves from losses, but in fiscal year 1979 which runs from May to April, the first half of the year we made money, the last half of the year we lost everything we made.

For fiscal 1980 we lost $5 million; 1981 we lost $6 million. We are almost halfway through this year and they will parallel last year in losses. Our employees have made sacrifices. We have laid off approximately 100 people. The rest have worked reduced hours.

Wages for the hourly people have not been increased since June 1981. Salaried employees have been without a raise for two years and the owners without for three.

One of our biggest problems with the Forest Service sales, Mr. Keene went over it briefly; is the blow-down timber. We have some blow-down sales. We will not log those blow-down sales unless they are terminated and put up for bid. We simply cannot afford it.

The losses that we would suffer we couldn't make up in 2 or 3 years. So we will not log them.

Also, we have in 1980, we went through a Forest Service sale, put in a road and decked the logs. Those logs are still decked. We are not going to remove those logs at the prices that they are decked for. So we would like some consideration in the blow-down and also for logs in cold decks.

We strongly urge passage of legislation allowing for termination and extension of Federal timber sales. We at Manke Lumber support the July 14 compromise.

[The prepared statement of Mr. Manke appears at the conclusion of the hearing.]

Mr. **Weaver**. Thank you very much.

Your story is very dramatic. I know the sacrifices you are all making. Your point on salvage is an extremely good one. I have not seen that before. That will be very helpful. I also want to commend

Gus Kuehne for being one of the finest people and most eloquent voices in the industry.

You always do a good job, Gus, and I always appreciate your coming before the committee. Thank you very much.

The committee will be recessed until tomorrow morning.

[Whereupon, at 2:25 p.m., the subcommittee recessed, to reconvene at 10 a.m., Wednesday, August 18, 1982.]

MATERIAL SUBMITTED BY FRED SOHN

STATEMENT IN SUPPORT OF A TIMBER INDUSTRY PROPOSAL FOR MODIFICATION OF FEDERAL TIMBER SALE CONTRACTS

Submitted By:

INDUSTRIAL FORESTRY ASSOCIATION, Portland, Oregon

NORTHWEST INDEPENDENT FOREST MANUFACTURERS, Tacoma Washington

NORTHWEST PINE ASSOCIATION, Spokane, Washington

NORTH WEST TIMBER ASSOCIATION, Eugene, Oregon

WESTERN FOREST INDUSTRIES ASSOCIATION, Portland, Oregon

WESTERN RESOURCE ALLIANCE, Eugene, Oregon

WESTERN TIMBER ASSOCIATION, San Francisco, California

I. Most of the Timber Industry has Formulated a Proposal to Deal with an Important Federal Aspect of the Present Industry Depression.

The timber industry is beset by a worsening depression. Industry associations and companies began considering nearly a year ago whether federal legislation would be both necessary and feasible to alleviate the distress being suffered by many communities, workers and companies. Despite differing perspectives based on such factors as geography, company size and past business practices, most members of the industry have gradually coalesced in the past months in support of a compromise plan. This proposed legislation is designed to save federal expenditures, reserve regional, community and company stability, and avoid a windfall for any particular industry segment.

Not every element of industry is in complete agreement on every point of this proposal. But it is the proposal with by far the greatest support of the largest portion of the industry.

This statement will discuss in detail the condition of the industry and need for legislation, the financial advantages to government of enacting this plan as opposed to taking no action, the evolution of industry near-consensus, and the specific details of the industry proposal as well as views on specific elements of legislation proposed by others.

II. The Timber Industry Depression has Created an Urgent Need for Federal Action to Adapt to New Economic Ground Rules.

A. Industry's Market has Collapsed as a Result of the Plunge in Housing Starts.

The timber industry is in a state of depression caused by broader economic factors beyond the control of the industry. Policies of the Federal Reserve Board aimed at curbing inflation resulted in high interest rates generally and record high home mortgage interest rates in particular. These high mortgage rates, together with other unfavorable general economic developments, have plunged housing starts to their lowest rate since World War II. Because housing is the largest single user of lumber and plywood, the timber industry that produces lumber and plywood has followed housing into collapse.

According to the U.S. Forest Service, softwood lumber production has fallen from 31.3 billion board feet in 1978 to 23.6 billion board feet in 1981. Softwood plywood production has fallen from 19.5 billion square feet to 16.1 billion square feet during the same period. Production has continued to decline during the first half of 1982.

B. Industry Production has Fallen Sharply, Causing Mill Closings and Curtailments, and Severe Unemployment and Short Work Weeks.

For a variety of reasons including bulk and high carrying costs lumber and plywood are not inventoried for long periods of time by their producers. Drops in production directly reflect loss of market rather than inventory manipulations.

As a result of production declines, mill closings and curtailments have soared during the past two years, and employment has declined markedly. According to the Western Wood Products Association, between 32,000 and 64,000 of the 102,000 employees in 756 western sawmills have typically been on layoff or reduced work weeks during most weeks of 1982. Between 265 and 428 of those mills have typically been closed or on curtailed operations. According to the American Plywood Association, between 5,000 and 6,100 of the 21,000 employees in 110 western plywood mills have typically been on layoff or reduced work deeks during most weeks of 1982. Between 50 and 65 of those mills have typically been closed or on curtailed operations. Assuming a typical ratio of two indirect jobs for each direct job, that means some 210,000 jobs in the west alone are affected by the industry's depression.

C. The Loss of Market has Pushed Prices Down by as Much as Half in an Industry where Low Prices Do Not Generate Demand.

With the decline in markets for lumber and plywood has come a plunge in the price of these products. According to textbook economics, a drop in sales should lead to a lowering of prices which in turn will fuel new demand that restores sales levels. For lumber and plywood, however, price does not create demand. Rather, demand sets price. Historically, as demand and production increase, so does price, with little curtailment of demand. But as demand and production fall, so also does price, with essentially no creation of new demand. This scenario results because housing construction, which controls lumber and plywood demand, increases or decreases as a result of interest rates, not lumber and plywood prices. Although these prices have some significance in setting the price of a house, they play virtually no role in determining whether that house will be built or not.

Since their high points during 1979, prices for key lumber products have fallen by more than half. Unseasoned Douglas fir 2x4's, for example, an important product from western Oregon and western Washington, sold at $326 in August 1979, but are selling for $140 in August 1982, according to the trade publication Random Lengths. The basic western plywood product, Douglas fir 1/2" CDX, sells presently for $165, down from $225 in August 1979.

D. Costs of Much Raw Material, Established in a Different Economic Environment, Now Are Impossible to Meet as a Result of Plunging Prices for Finished Products.

Western Oregon and western Washington is the single largest source of lumber and plywood in the United States. Although large companies own significant timber acreage in that area, over half of timber is publicly owned, with most of the public portion administered by the U.S. Forest Service. Most companies in the area are heavily dependent on Forest Service timber for their raw material, and many are dependent on one or another source of public timber for 100 per cent of their raw material. The large number of companies in the region breeds significant competition for this timber, which companies must have to remain in operation.

Forest Service timber is typically sold three to seven years ahead of the season during which it actually will be harvested and manufactured into lumber or plywood. During the late 1970s and into the start of the 1980s, companies bid for Forest Service timber in part based on their calculation of what products manufactured from the timber would be worth at the future time of harvest. Government and reputable private economists foresaw a continuation of high inflation, moderate mortgage interest rates, and the entry of the post-World War II baby boom generation into the prime home-buying years. These conclusions added up to a housing boom for the 1980's and high demand for lumber and plywood.

As a result, bids for National Forest timber rose spectacularly. For example, prices for Douglas fir, the principal species in western Oregon and western Washington, soared from $41.90 per thousand board feet in 1970 to $432.20 in 1980, more than a ten-fold increase. In addition to the economic forecasts for the 1980's, bidders were influenced by a feared future shortage of timber resulting from unresolved public policy decisions over how much federal land suitable for timber should be allocated to wilderness or other uses barring timber harvest.

The timber bid to high levels in that different economic climate now comprises much of the timber available for manufacture in the present period of low product prices. Because raw material can typically account for 60 per cent or more of the manufacturing cost in a western Oregon or western Washington mill, the price of much timber now is too high for it to be harvested and manufactured at anything short of catastropic economic loss. In numerous cases, the cost of the raw material alone is higher than the current market value of the finished products without even taking other costs of manufacture into account.

Various estimates by the Forest Service and industry analysts show that as much as 90 per cent of the present volume of timber under contract in western Oregon, western Washington and Northern California is economically unharvestable. In western Oregon, the average delivered pond cost (stumpage price, plus logging and delivery cost as appraised at time of bid) of timber under contract is $469, twice the average market value today for such logs. See Appendix A.

E. The Volume of Stumpage Too High-Priced to Harvest is Widely Distributed and Increasingly Critical as Deadlines for its Harvest Approach.

In western Oregon alone, 39 companies hold 50 million board feet or more of Forest Service timber under contract at average prices per company typically higher than $300 (not including logging or delivery costs). Appendix B lists specific data for this area.

As these contracts begin to approach their final year or two for performance, purchasers increasingly face the choice of whether to default the contract and risk owing a large money judgment, or harvest at a major loss. The Forest Service so far has twice provided for extensions of contract expiration dates, though at some cost to purchasers. Although contracts allow for a no-cost adjustment of the termination date for such events as fire or Act of God, a major change in economic climate is not a qualifying event.

On May 7, 1982, the Forest Service relaxed its extension payment provisions, but still requires payment of interest on the unpaid purchase price of the timber as a condition of extension. For purchasers with reduced or non-existent cash flow, even the payment of interest may result in a decision to default a sale. The timing of contract expiration dates and extensions is such that these decisions will start to come with increasing frequency over the next few months.

F. Legislation is Necessary Now to Broaden the Array of Actions that can be Taken by Purchasers and the Government.

The timber industry is traditionally cyclical. Operators are used to weathering perhaps one bad year in five. But the present depression is unparalleled since the Great Depression of the 1930's, and is totally unparalleled in terms of the mammoth overhang of federal timber contracts that cannot be operated.

Revised economic forecasts for the rest of the decade, based now on recent government policy changes such as concerning inflation and structural changes in the savings industry, make it doubtful whether much of the high-priced timber now under contract can ever be economically harvested.

Clearly the ground rules of the game have changed so markedly that broader possibilities than mere extension of contracts must become available in order for the fundmental adjustment of the industry to these new rules to take place. A significant portion of these contracts should be terminated and the remainder extended without cost. Additionally, the Forest Service should more fully pay the cost of its roads. This proposal is discussed in detail below at Section V.

III. The Industry Proposal Would Save Money for the Government and Benefit Communities, Workers and the Public Interest.

A. The Choice Facing Congress is How to Make the Best of a Disastrous Situation, Not Whether to Preserve Illusory Benefits that In Fact Have Already Disappeared.

The timber industry has been accused by some of seeking a bailout from the federal government for companies that bet and lost. The industry plan, in fact, is not a bailout and is markedly different from relief proposals which have been adopted or discussed for other industries.

The principal money item at issue is the value of the timber under contract. Industry's plan has been portrayed by some as if a portion of the original contract value is being handed back to industry. In fact, the portion of that value which exceeds the present value of the timber has already been lost because of the supervening market forces discussed above. The timber under contract has a nominal value based on the contract prices bid up to several years ago, but that is far in excess of its real value. The difference in values has disappeared--it has not nor would not go to either the industry or the government.

The notion that the government can capture the original contract value simply by enforcing the contracts ignores the realities of the situation. More to the point is what the government can do to minimize its loss and avoid sending good money after bad.

B. The Industry's Termination and Extension Proposal Would Not Cost the Government.

No grants, loans or loan guarantees typical of other relief programs are involved in the industry proposal.

The Office of Management and Budget detailed six major reasons why President Reagan vetoed in late June a bill characterized as a $3 billion bailout for the housing industry. These reasons included: (1) government spending cannot create new jobs, only reallocate existing employment; (2) the bill would create pressure for similar bills for other industries and worsen budget deficits; (3) adding to the budget deficit will aggravate interest rates; (4) new federal programs to channel credit to one segment of the economy will choke off activity elsewhere; (5) a reduced deficit is the best relief for housing; and (6) the housing package is a budget buster with unsupported estimates of its effect. None of these reasons is applicable to industry's termination and extension plan for the general reason that it doesn't call for federal spending.

C. The Government Would be Unable to Collect Damages from Massive Contract Defaults, and Would Trigger Other Adverse Impacts Even if it Tried to Collect.

The argument that the government should stand firm on high-priced timber contracts assumes that the government can recover the original contract price through a combination of resale and damages if the contracts are defaulted. A purchaser who defaults is liable to the government for the difference between the original sales price and the price upon resale of the contract if the latter price is lower. If the resale price is higher, then there are no damages. But in the present economic environment, resales of a contract defaulted for economic reasons would almost certainly bring a far lower price. For example, Douglas fir on the west side of Forest Service Region 6 presently is selling for less than one-fourth what it sold for early in 1980. See Appendix C.

In order to make its case for damages, however, the Forest Service would first have to reoffer the sale promptly and in an essentially identical fashion. Satisfying those two criteria could create other problems, however.

The prompt reoffering of numerous defaulted sales would tend to flood the market with more timber than it would want to absorb. That could force prices artificially low. Since most of the reofferings presumably would be in Region 6, site of the highest-priced existing contracts, there would be potential for regional market dislocation by products produced from such artifically low-priced timber. The Forest Service already has said it would reoffer timber from terminated sales in consonance with its normal sale program and in light of the market's ability to absorb the reofferings. That course would seem likely to produce more revenue for the government than would forced sales into an unwilling market.

Reoffering defaulted sales under their original conditions would require using former contract provisions which were abandoned earlier this year when the Forest Service increased the financial obligations of purchasers. Those changes were intended to reduce speculation in timber. Offering a number of contracts with the old terms could create an unwarranted two-tier sale arena.

Even if sales were promptly resold under the older contract terms, the Forest Service would incur the legal costs and time of trying to win a judgment in court for the contract value lost on resale. Once a judgment was won, the problem would remain of how to collect it. Companies defaulting on sales could well be bankrupt or otherwise out of business by the time any judgment was rendered.

Defaults are also a much worse outcome for county governments, which share in timber revenue to the federal government. Counties would get no share of any default judgment which might be collected, and they would receive less from a forced default resale than they likely would get from an orderly termination resale.

In sum, by standing pat on a harvest-or-default policy, the government could do itself more harm from both a revenue and policy standpoint than if it permitted an orderly termination and resale of a significant portion of the highest-priced sales.

D. Massive Defaults Would Consolidate the Industry in a Manner Harmful to the Government's Longterm Financial Interest and the Public Interest.

The timber industry presently includes numerous independent, privately held companies which compete strongly against each other. Although a few large and sometimes diversified companies in the industry are well known to the general public, the industry is not highly concentrated.

If companies are forced into massive defaults on existing federal timber contracts, however, the result for many will be bankruptcy or other forced exit from the industry. That would tend to consolidate the industry to no public benefit. Less competition in the long run would reduce government revenues from timber over what revenues would be from a more internally competitive industry.

The shutdowns and work curtailments of the present depression have had a devastating effect on many communities. This would be magnified if the shutdowns were permanent. Unlike many industries which cluster in large metropolitan areas, the timber industry has many of its facilities in small communities which have little or no other economic base. A mill closing can mean the death of such communities, leaving residents jobless and with property losses that can wipe out their lifetime savings.

E. There is Nothing Unique About Parties to a Contract Modifying the Contract when Unforeseen Circumstances Arise.

Government's relation to timber companies in this situation is much like that of another private party in a routine business arrangement. It is not unusual for a contract to be changed when events arise which were not expected when the contract was signed. Government is more frequently the purchaser than the seller in contracts. Terms often are changed in longterm procurement contracts when unexpected situations arise. But the principle should be no different here where government happens to be the seller and it is to the parties mutual advantage to work out an orderly change rather than stand by a chaotic status quo.

IV. The Timber Industry Has Negotiated at Length to Develop a Proposal That Does Not Benefit One Segment of the Industry Alone at the Expense of Others.

A. Industry First Began Discussing Contract Terminations in Autumn 1981.

In late 1981, it began to become apparent that the timber industry was suffering more than its typical one-year down cycle. Some members of the industry from western Oregon began exploring whether allowing termination of federal timber contracts might be the best way to resolve that clearly was getting out of the ordinary. Reps. James Weaver and Les AuCoin of Oregon introduced separate contract termination bills, and hearings were held in Chairman Weaver's House Agriculture forests subcommittee.

B. A Western Industry Proposal Evolved Under the Auspices of Senators Hatfield and McClure.

Early in 1982, Sen. Mark Hatfield of Oregon suggested one means of helping Oregon mills beset by high raw materials costs and counties plagued by declining timber revenues: roll back the contract price of timber on the Bureau of Land Management's O&C timber lands in Oregon. Counties apparently believed this would be the quickest route to increasing timber harvests so that county revenues would rebound.

The notion of a benefit only for companies operating on the O&C lands was opposed by operators in the inland area of the west, who expressed their views to Sen. James McClure of Idaho. Sen. Hatfield and Sen. McClure discussed the matter. They ultimately oversaw the formation of an industry committee from Oregon and Idaho which they asked to return with a proposal for contract modification which both sides could agree on.

This eight-member committee met several times in Washington D.C. and in the west, as did executives from several of the timber industry associations based in those regions.

Participants recognized that any significant program would have to effect more than just BLM contracts in order to avoid benefitting only one segment of the industry. The BLM sells approximately one-tenth as much timber in its Oregon operation as the Forest Service sells nationally. While the Oregon operators favored a program permitting unrestricted termination of contracts, the Idaho operators expressed concern that this would give a big market advantage to operators in the higher-priced areas, where a termination would be worth more than in low-priced areas such as Idaho. The Idaho operators also said their bigger problem during the industry downturn was having to pay more of the share of building roads to be included in the permanent National Forest

Road System. The elimination of the "ineffective purchaser road credit" was both needed and justified in principle as a source for relief.

The committee ultimately reported to Sens. Hatfield and McClure and at a meeting with the senators, completed work on a three-point program for industry legislation. The three elements would entitle each operator to:

> (1) terminate federal timber sale contracts covering approximately 40 per cent of the operator's volume under contract;
>
> (2) Extend for five additional years without financial penalty the expiration date of any contract not terminated; and
>
> (3) Receive full purchaser road credit without regard to the price of timber in the contract under which the road was built, with such credit to be transferrable and applicable anywhere in the National Forest System.

The working out of details and drafting of legislative language embodying this proposal then began within industry. During both the negotiation of the three major points and the evolution of details, it was apparent that while virtually no one believed this proposal would have been his personal first choice to most benefit his company, it was a reasonable compromise among divergent views and industry situations that the greatest number could accept and endorse it as providing the highest degree of benefit under these different circumstances to the lumber community.

C. Industry in the West Made Concessions to Concerns Voiced by Industry in the South, but a Difference on One Point has Forestalled General Industry Agreement on the Proposal to this Point.

The western industry draft was generally circulated. Some operators in the south voiced concern that any large volume of terminated timber might reenter the market in addition to the regular Forest Service sales program. This, they feared, would lead to abnormally low timber prices in the west and result in market dislocation at the expense of the south. In light of statements from the Department of Agriculture that terminated volume would be reoffered as part of the regular sale program, the west did not believe the south's fears would be realized.

The south, however, proposed that any legislation include some additional limitation on timber sales in the west to insure against market dislocation. The west indicated it would not object to legislative direction that resales be part of the regular sale program. The south suggested a precise board-feet limitation on sales in Forest Service Region 6 during fiscal years 1983 and 1984. The two sides sparred for a time over different numerical limitations and whether they should apply to all of Region 6 or only to the west side of Region 6--western Oregon and western Washington. Ultimately, they could not agree on a numerical sales limitation.

Although the west was willing in the spirit of compromise to accept a fairly strict numerical limitation, the west is very concerned that a limit set now on sales in 1983 and 1984 could artifically constrain raw material supply later in the 1980's. In light of the inability to agree on a number, the proposed industry bill reverts to the more general form of limitation on resales, which the west believes adequately protects against market dislocation.

D. The Industry Proposal Includes Compromises Developed with the Administering Agencies and Congressional Staff Members.

During the course of drafting its proposals, industry worked closely with the staff of Senator Hatfield, which in turn involved the Forest Service, Bureau of Land Management, and legislative counsel of the Senate. Although Senator Hatfield ultimately introduced legislation not proposed by industry, many of the results of the consultations with his staff and the others are reflected in the industry proposal.

V. The Industry Believes its Proposal Best Meets the Needs of the Federal Government, Local Communities and their Governments, Workers, and Businesses.

The text of the industry proposal is enclosed with this statement and is formally submitted for the record and for consideration of the Committee in its markup of legislation.

A. Purchasers Should be Entitled to Terminate Approximately 40 per cent of their Federal Timber Under Contract.

Section 1 of the proposal authorizes the Secretaries of Agriculture and the Interior to terminate contracts for the purchase of timber which were bid prior to January 1, 1982. Section 2 mandates and sets the limitations on the termination program, and Section 6 requires prompt implementation. Provisions of the termination program include as follows:

1. Timing.

The Secretaries would be directed to publish procedures implementing the program within 30 days after enactment of the Act. Purchasers then would have 45 days in which to file written requests for terminations of contracts. Contracts which otherwise would expire after enactment but before implementation of the program would be preserved for participation in the program. The condition of the industry makes rapid action highly important, thus the strict time limit for getting the program underway. Purchasers would have to make their decisions promptly as well, so they could not have the opportunity for extended speculation over whether a sale should be held or terminated.

2. Volume to be Terminated.

Purchasers would be entitled to terminate 40 per cent of their timber volume under contract with both Secretaries as of April 1, 1982. Because it is highly unlikely that any combination of terminated sales would total exactly 40 per cent of volume under contract, purchasers could "round up" their terminated volume by terminating one additional sale so long as the total volume terminated including the additional sale did not exceed the 40 per cent limitation by more than 10 million board feet. The one additional sale would have to be more recently bid than any of the other sales terminated by the purchaser.

Small businesses holding only one or two sales might find that they could not terminate a sale under the 40 per cent limitation. Therefore, an alternate termination entitlement of either 15 million board feet or one contract is provided.

3. Qualifying Date of Sales to be Terminated.

To be eligible for termination, a sale would have to have been bid prior to January 1, 1982. Beginning in 1982, the agencies began to offer a number of short-term sales in an effort to bring more realistically priced timber onto the market. These more recent sales would not be eligible for termination, although, as noted above, sales bid prior to April 1, 1982 would be used in calculating a purchaser's volume of termination entitlement.

4. Condition of Sales to be Terminated.

Sales on which no harvesting has taken place could only be terminated in full. A purchaser could not turn in one part of a sale while retaining another part.

Sales on which partial harvesting had taken place could be terminated only after work was completed on identifiable units or other logical portions of the sale as determined by the Secretary.

The Secretary could refuse to terminate the contract of a partially cut sale if he determined that remaining unharvested units were not representative of the entire contract area in terms of species and logging methods.

Partially cut sales must be eligible for termination or else the termination program will be too limited in its practical application. At the same time, the Secretary must be given authority to reject termination where he finds a purchaser has taken the cream from a sale area and left only the skim milk.

5. Costs.

A terminating purchaser would be required to pay a termination fee of $3 per thousand board feet of terminated volume. This payment would cover the cost of reoffering the sale and would be in lieu of any damages, penalties or other claims.

The $3 charge is based on cost determinations made by the Forest Service that it will cost $1 per thousand board feet to reoffer an untouched sale and $6 per thousand to reoffer a partially cut sale. A termination charge formula is considered much more administratively efficient than trying to calculate the actual reoffering costs of each sale.

6. Road-Building Requirements.

The Secretary could require a terminating purchaser to complete any roads specified in a contract and to deck the right-of-way timber cut during such road building. This requirement is designed to insure that the termination of a sale would not block access to another sale which is dependent on a road that was to be built in the terminated sale. The decked right-of-way timber could be sold by the agency to a willing buyer.

7. Road Credits from Terminated Contracts.

Purchaser road credits remaining on a Forest Service sale after setoff against amounts owed by the purchaser to the Secretary of Agriculture could be transferred to other contracts held by the purchaser, retained on account with the Secretary by the purchaser, or transferred to another party with all rights. Subsection C below more fully discusses the industry's purchaser road credit proposal, which this provision implements as to terminated contracts.

A purchaser terminating a contract with the Department of the Interior who had completed roads under that contract would be credited, after setoff, for the value of the roads as set in the contract appraisal allowance. That credit could be transferred to other contracts with the Secretary of the Interior held by the purchaser, retained as a credit with the Secretary, or transferred to another party with all rights. This would reimburse the purchaser for value provided to the Secretary without consideration. Normally, a bidder for an Interior sale pays the cost of the road but takes that cost into account in making his bid. Thus, he is actually paid for the road through the value of the harvested timber.

8. Limitation on Resales of Terminated Timber.

Terminated Forest Service contracts would be resold only as part of the agency's normal sale program. This is intended to prevent flooding of the timber market with sales in excess of the normal sale program, and any possible regional dislocation that might result.

9. Eligibility for Bidding on Resales.

Terminating purchasers would be eligible to bid on the resale of their terminated contracts.

B. Sales Not Terminated Should be Extended by an Additional Five Years Without Financial Penalty.

Section 1 of the proposal authorizes the Secretaries to extend timber sale contracts under the program mandated in Section 3. The provisions of the extension program are as follows:

1. Timing.

Implementing provisions would be published by the Secretaries within 30 days of enactment of the Act in accordance with Section 6. Extension requests would be made prior to the termination date presently in effect for the contract. Extensions would be for five years from the termination date in effect at time of enactment of the Act.

2. Contracts Eligible for Extension.

To be extended, contracts would have to have been bid prior to January 1, 1982. Contracts sold this year would not be eligible for extension. To permit extensions of these contracts would defeat the purpose of the short-term sales offered this year. There is no timber volume limit on the aggregate of contracts to be extended. However, contracts involving substantial amounts of timber subject to rapid deterioration could not be extended except with approval of the Secretary. Permitting unqualified extension of such deteriorating timber would waste the resource. Permitting termination of such contracts, however, enables the agency to resell quickly to a willing harvester.

3. Conditions of Extension.

The Secretary may require an extending purchaser to complete road construction required by the contract. This is to avoid access being blocked to other sales as a result of the extension.

Extending purchasers would have to remove 25 per cent of the estimated timber volume by the end of the third operating season of the five-year extension period, or pay 25 per cent of the contract price by the start of the fourth operating season of the extension period. This provision is designed to insure that some work will progress during the course of the extension, and that operators will not leaves sales untouched until the end, then seek further extensions or terminations. This provision reflects a particular concern of industry in the south.

C. As Part of a Program to Meet the Industry Depression, the Forest Service Should More Fully Pay the Costs of Roads Built Under Timber Contracts and Designed for Inclusion in the Permanent National Forest Road System.

On many timber sales, roads must be constructed in order to provide access. The Forest Service requires roads built to be adequate to log the balance of the timber adjacent and tributary to the road but not included in the sale, and for future management of the land, as well as such non-timber uses as hunting, fishing, and other outdoor recreation activities. These are designated for inclusion in the permanent National Forest Roads System. Such permanent roads are built to higher standards than would be necessary for the specific timber sale. Therefore, when the timber purchaser builds a permanent road for the Forest Service, he is given a credit for those construction costs. The purchaser's position is theoretically similar to that of any contractor building a federal highway--he provides a benefit to the government and gets paid for it. Rather than receiving a cash payment, however, the timber purchaser receives a credit which he can apply against certain timber he harvests.

A problem with purchaser road credit is that there are many instances where the credit can never be taken, or can be taken only after significant time delay. The result is that the purchaser is in some cases donating part of the road to the government, and in other cases is providing the equivalent of an interest subsidy to the government.

So-called "ineffective" purchaser road credit arises when the value of timber on a sale in excess of the statutory base rate is less than the estimated cost of the road construction required under that sale contract. The base rate is a portion of the timber value which must be paid in cash, not credits. The remaining value can be paid in purchaser road credits. But credits in excess of the remaining value presently are valueless.

Sales whose stumpage price escalates or de-escalates based on the market may have originally had adequate stumpage value to absorb road credits. But in a market decline such as now, the stumpage value may de-escalate below the amount needed to absorb road cost, and may require cash repayment in lieu of road credits already used which have now been transformed from effective to ineffective.

"Effective" purchaser road credits can be used to pay for timber not only from the sale where the road was built, but for any other sale in the same National Forest. If a purchaser has more than one sale operating in a suitable sequence in the same National Forest, he ideally can utilize his credits soon after they are earned. But in other situations, the purchaser may be unable to use his credits for perhaps one or two years, thus providing the equivalent of an interest-free loan to the government.

Some purchasers, faced with the knowledge that some of their road credits on a particular sale will be ineffective, bid the price of the sale up to the level where all the credit will be effective. This costs the purchaser nothing, and may provide a cash flow advantage if he has another sale in the same forest on which to use the credit. These cash strategies, however, are somewhat artificial.

Industry proposes that the timber purchaser subsidy to government road building be ended by making all purchaser road credits effective, permitting them to be utilized anywhere in the National Forest System, and making them freely transferable among purchasers. This creates a much greater degree of equity between purchasers and the government, and between different purchasers.

Most sales with ineffective road credits--called deficit sales--typically are east of the summit of the Cascade Range and in the Rocky Mountains, areas where timber prices are lower than in such areas as western Oregon and western Washington. Increasing numbers of sales in California and the west side of Region 6 also are deficit in the present market. Providing relief to purchasers from the subsidization of government roads would importantly help them weather the present timber depression as well as end an unwarranted private subsidy to the United States. Operators in the inland area will be less helped by contract termination than operators in high-priced areas, so this element of the industry proposal would significantly balance the benefits of legislation.

The industry proposal would make effective the ineffective purchaser road credits earned under contracts still in effect, and would make all future road credits effective.

Some opponents of the purchaser road credit proposal argue that it would make marginal timber sales in the inland area more attractive to operators and thus would increase the development of presently roadless areas. Industry believes, however, that there are likely to be fewer roads built in roadless areas of the inland region because the government will have to, in one way or another, more fully pay the cost of these roads.

D. By Exercising the Termination and Extension Entitlements Proposed, a Typical Western Oregon Company Would Break Even Financially Through Most of the Rest of the 1980's.

The industry's proposed 40 per cent/60 per cent division between terminated timber volume and extended volume provides a average western Oregon operator with an apparent opportunity to break even by the end of the decade on timber retained with extensions. The chart attached as Appendix D contains supporting calculations.

Reaching a break-even point in 1989 assumes that an operator terminates his highest-price timber and cuts most of his extended volume in the final two years of the extension period. The calculation further assumes the assistance of a 7 per cent inflation rate. The operator is assumed to make a 10 per cent profit on all new purchases of timber and to apply this profit against losses incurred on the extended timber. If the inflation rate were 10 per cent, the break-even point would be reached in 1987--still five years from now.

E. Some Jobs Would be Restored by the Industry Proposal, and Many Other Jobs Would Be Poised for Quick Restoration When Markets Improve.

It is important to remember that any form of contract modification, whether it be termination, extension or price rollback, cannot in and of itself create additional markets for lumber and plywood. What modification can do is enable operators to retain their share of the present depressed markets as opposed to losing further market share or leaving the market entirely due to business failure. Moreover, contract modification will enable companies to promptly increase their production as markets revive.

The industry's proposed terminations and extensions both provide for prompt building of roads at the discretion of the Secretaries. These roads would not be built if contracts were defaulted until the timber was reoffered and resold. Thus, the industry program will more quickly create and retain road-building employment than would taking no action and inducing massive defaults.

VI. Other Legislative Proposals Contain Shortcomings as Compared To the Industry Proposal.

A. The Hatfield Bill Offers A Generally Suitable Framework for the Industry Proposal, But Contains Two Provisions Not Favored by Industry.

The Hatfield Bill, introduced by Senator Hatfield as S. 2805 and by Representative Weaver as H.R. 6913, broadly authorizes the Secretaries of Agriculture and the Interior to modify timber sales contracts bid prior to January 1, 1982. It specifically lists as permissible modifications the termination, extension, or purchase price modification of such contracts. The Secretaries are directed to publish procedures for the modification of contracts within 30 days of enactment of the Act.

This bill provides a suitable framework for the industry proposal. The specific provisions of the industry proposal should be included in S. 2805 and H.R. 6913, however. In their present very general form, virtually complete discretion is left to the agencies. In light of the delicate balance among various regions, communities and businesses who are vitally concerned with this issue, it is preferable for Congress to more specifically direct the agencies what actions they should take. Even in the industry proposal, much implementing detail is left to the agencies' discretion. But the broader policy parameters should be spelled out in legislation.

In addition to the broad issue of how much discretion to leave to the agencies, two specific provisions of S. 2805 and H.R. 6913 are of particular concern to industry.

Section 2 authorizes the Secretaries to act only "upon a showing of economic hardship by the private contracting party". It is not specified whether this is to be economic hardship relating to the specific timber contract at issue, or whether it is to be economic hardship relating to the purchasing operator as a whole. If the hardship relates only to the specific contract, industry's concern is less, since there would be no seek termination or extension of the contract if it were economically viable to operate. If the hardship is to relate to the entire company, however, industry would be gravely concerned about the kinds of tests to be set and the inequities among purchasers which would likely result. In the course of developing its proposal, industry considered whether hardship qualifying tests should be set and concluded there was no equitable measure that could be practically used. Company size was not proper, because some large companies as well as small are in poor condition. Volume of timber under contract is not relevant. Profit or loss for the most recent period is not an accurate indicator because it is unrelated to the immediate future problems of the timber volume under contract and its price. A portion of the industry depression problem is faced by company's who have no timber under contract because they were frozen out by high bidding in previous years. These companies could get inadequate access to resale of terminated volumes if companies in their vicinity were judged to have no economic hardship and thus could not terminate sales. A company's relative hardship position also could change depending on whether its nearby competitors qualified and were able to terminate sales, thus sharply reducing their price of raw material while the supposedly healthier company was left with only high-priced raw material. Given the relatively short time left before this program should be implemented in order to be effective, the time required to develop any economic hardship test would be a further problem.

Industry also has strong doubts about rolling back the prices of existing contracts. The goals of price rollback and termination are the same: to make more timber available to the present market at prices that reflect the present market. Rollback would achieve this by lowering the prices for existing contract holders. Termination would achieve this by reoffering terminated sales to any purchaser under bidding that would reflect the current market. The industry has been criticized for creating its own problem due to high bidding that took place in the late 1970's and start of the 1980's. Rolling back prices for the winning high bidders of that period would grant them a benefit while providing no opportunity to reenter the market for purchasers who stayed out of that bidding. Termination would start the game over again for everyone equally under the new ground rules of the present market, favoring neither past bid winners nor companies who forewent those price levels. Industry believes, therefore, that terminations are a more equitable approach to the goal of putting timber back on the market at today's market prices.

B. The McClure Extensions Bill Offers One Form of Immediate Relief But Only Postpones the Problem.

Legislation introduced by Senator McClure as S. 2818 would provide only for a five-year extension of timber sale contracts. Extensions alone serve only to postpone the immediate crisis deadlines caused by the timber depression, but do not offer a solution reasonably likely to enable operators to emerge from the depression in minimally acceptable business condition.

A table compiled by a wester Oregon lumber company and attached as Appendix E illustrates how extensions are insufficient by themselves. From 1977 through the first half of 1980, market prices for a benchmark lumber commodity remained higher than, and rose in general accord with, the cost of the product, including stumpage, logging cost and cost of manufacture.

Based on Federal timber sales under contract in western Oregon, the product cost continues to rise steadily through 1986. But the drop in product price from mid-1980 to date leaves the price well below the cost of manufacturing from present federal contracts. Thus, the product can't be manufactured except at great economic loss. Even assuming a 15 per cent annual increase in product price (well above projected inflation rates), the price won't come near catching up with costs. Extending contracts enables producers to put off cutting the high-priced timber, but doesn't leave sufficient time for the price to catch up to costs. As discussed above, 60 per cent extensions coupled with 40 per cent terminations would allow a typical operator to break even by near the end of the decade. But 100 per cent extensions and no terminations would put the break-even point off until well into the 1990's or perhaps even the turn of the century, depending on the inflation rate.

Forcing operators to retain all present contracts, even with extensions, hinders their ability to purchase present timber supplies at prices reflecting the current market. It also reduces the selection of timber available to the agencies to offer in expectation of providing realistically priced raw material.

VII. CONCLUSION: For the Reasons Stated Above, Congress Should Enact the Proposal Developed by Industry.

APPENDIX A

REMAINING VOLUME UNDER CONTRACT BY PRICE
FOREST SERVICE - REGION 6

Period Ending 3/31/82

WESTERN OREGON

MBF	%	Stumpage Price Range $/M	Delivered Pond Cost $/M
35,954	0.5	N/A	0
456,801	5.8	1-100	239
461,467	5.9	101-150	285
651,183	8.3	151-200	317
745,887	9.5	201-250	373
1,043,079	13.3	251-300	411
1,106,783	14.0	301-350	467
1,030,418	13.1	351-400	512
961,624	12.2	401-450	563
658,876	8.4	451-500	600
386,588	4.9	501-550	661
90,903	1.2	551-600	709
73,172	0.9	601-650	779
46,770	0.6	651-700	830
7,270	0.1	701-750	939
103,901	1.3	751+	1,103
7,860,676	100.0		469

EASTERN OREGON

MBF	%	Stumpage Price Range $/M	Delivered Pond Cost $/M
31,505	0.9	N/A	0
1,189,649	32.7	1-100	199
502,786	13.8	101-150	251
572,565	15.8	151-200	307
576,268	15.9	201-250	341
396,725	10.9	251-300	378
193,416	5.3	301-350	418
145,060	4.0	351-400	456
25,700	0.7	401-450	516
0	-	451-500	0
0	-	501-550	0
0	-	551-600	0
0	-	601-650	0
0	-	651-700	0
0	-	701-750	0
0	-	751+	0
3,633,674	100.0		290

Source Data: Timber Data Co. from USFS
Compiled by: W.R.A., 5/3/82

APPENDIX A (cont.)

REMAINING VOLUME UNDER CONTRACT BY PRICE
FOREST SERVICE - REGION 6

Period Ending 3/31/82

WESTERN WASHINGTON

MBF	%	Stumpage Price Range $/M	Delivered Pond Cost $/M
26,352	0.7	N/A	0
992,706	24.9	1-100	231
568,075	14.3	101-150	263
707,249	17.8	151-200	323
432,125	10.8	201-250	366
445,424	11.2	251-300	406
290,401	7.3	301-350	444
325,939	8.2	351-400	524
84,136	2.1	401-450	529
39,427	1.0	451-500	599
33,500	0.8	501-550	622
37,500	0.9	551-600	664
0	-	601-650	0
0	-	651-700	0
0	-	701-750	0
0	-	751+	0
3,982,834	100.0		344

EASTERN WASHINGTON

MBF	%	Stumpage Price Range $/M	Delivered Pond Cost $/M
12,516	1.0	N/A	0
723,928	56.8	1-100	201
337,891	26.5	101-150	254
146,661	11.5	151-200	297
34,810	2.7	201-250	379
6,400	0.5	251-300	343
12,300	1.0	301-350	424
0	-	351-400	0
0	-	401-450	0
0	-	451-500	0
0	-	501-550	0
0	-	551-600	0
0	-	601-650	0
0	-	651-700	0
0	-	701-750	0
0	-	751+	0
1,274,506	100.0		234

Source Data: Timber Data Co. from USFS
Compiled by: W.R.A., 5/3/82

APPENDIX B

TIMBER VOLUME UNDER CONTRACT BY PURCHASER

Western Oregon
Region 6 - U.S. Forest Service

As of March 31, 1982

PURCHASER	VOLUME UNDER CONTRACT (MMBF)	AVERAGE MERCH. STUMPAGE $ PER MBF
A	623	346
B	429	212
C	316	261
D	299	322
E	281	352
F	280	334
G	276	306
H	268	358
I	240	297
J	236	470
K	225	299
L	212	375
M	195	274
N	188	320
O	182	384
P	176	298
Q	167	364
R	150	341
S	143	368
T	136	278
U	133	320
V	132	304
W	130	330
X	116	192
Y	113	378
Z	108	387
AA	105	448
BB	103	391
CC	101	594
DD	101	274
EE	99	280
FF	86	434
GG	85	252
HH	84	253
II	83	386
JJ	72	180
KK	62	247
LL	56	287
MM	51	271

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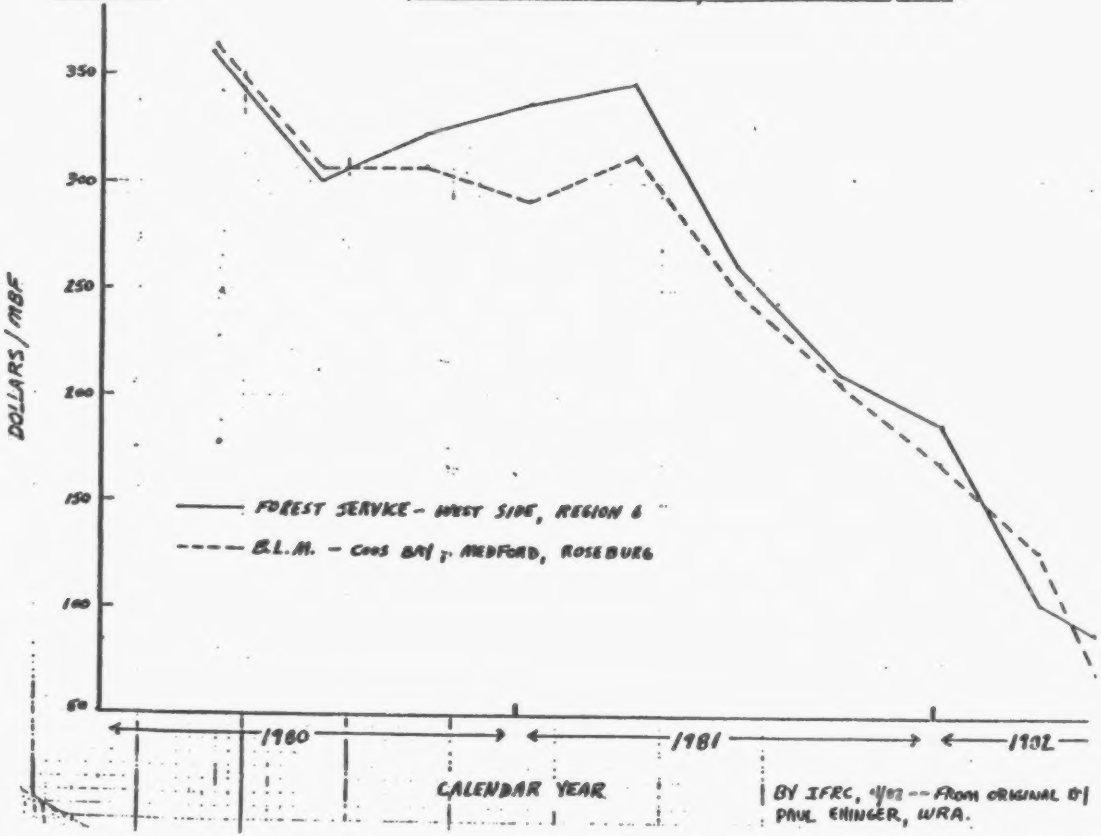
* Names have been removed, but each letter represents an actual, separate company.

Source Data: Timber Data Co. & U.S. Forest Service

June 1982

APPENDIX C

QUARTERLY AVERAGE BID PRICES, FEDERAL TIMBER SALES



BY IFRC, 4/82 -- FROM ORIGINAL BY PAUL EHINGER, WRA.

APPENDIX D

CALCULATION ON PROJECTED AVERAGING OF STUMPAGE

WESTERN OREGON
REGION 6 - U.S.F.S.

YEAR	AVERAGE MERCH. MARKET LOG COST (INCREASE 7%/YEAR)	AVERAGE MERCH. MARKET LOG COST (INCREASE 10%/YEAR)	10% PROFIT ON LOG COST (INCREASE 7%/YEAR)	10% PROFIT ON LOG COST (INCREASE 10%/YEAR)	LOG COST W/40% TERMINATION (LOGGING COST INCR. 5%/YEAR)	LOSS/M (COL.5 LESS TOTAL COL. 1 & 3) (INCREASE 7%/YEAR)	LOSS/M (COL.5 LESS TOTAL COL. 2 & 4) (INCREASE 10%/YEAR)	% THAT CAN BE TERM. FOR BREAKEVEN ON ANNUAL VOLUME CUT (INCREASE 7%/YEAR)	% THAT CAN BE TERM. FOR BREAKEVEN ON ANNUAL VOLUME CUT (INCREASE 10%/YEAR)	ACCUM. % (INCREASE 7%/YEAR)	ACCUM. % (INCREASE 10%/YEAR)
1982	$230	$230	$23	$23	$380	$(127)	$(127)	--	--	--	--
1983	246	253	25	25	385	(114)	(107)	10%	19%	10%	19%
1984	263	278	26	28	390	(101)	(84)	20%	25%	30%	44%
1985	281	306	28	31	396	(87)	(59)	24%	34%	62%	78%
1986	301	337	30	34	402	(71)	(31)	29%	52%	91%	130%
1987	322	371	32	37	408	(54)	(0)	36%	100%	127%	230%
1988	345	408	34	41	414	(35)	--	48%	--	175%	
1989	369	449	37	45	420	(15)	--	69%	--	244%	

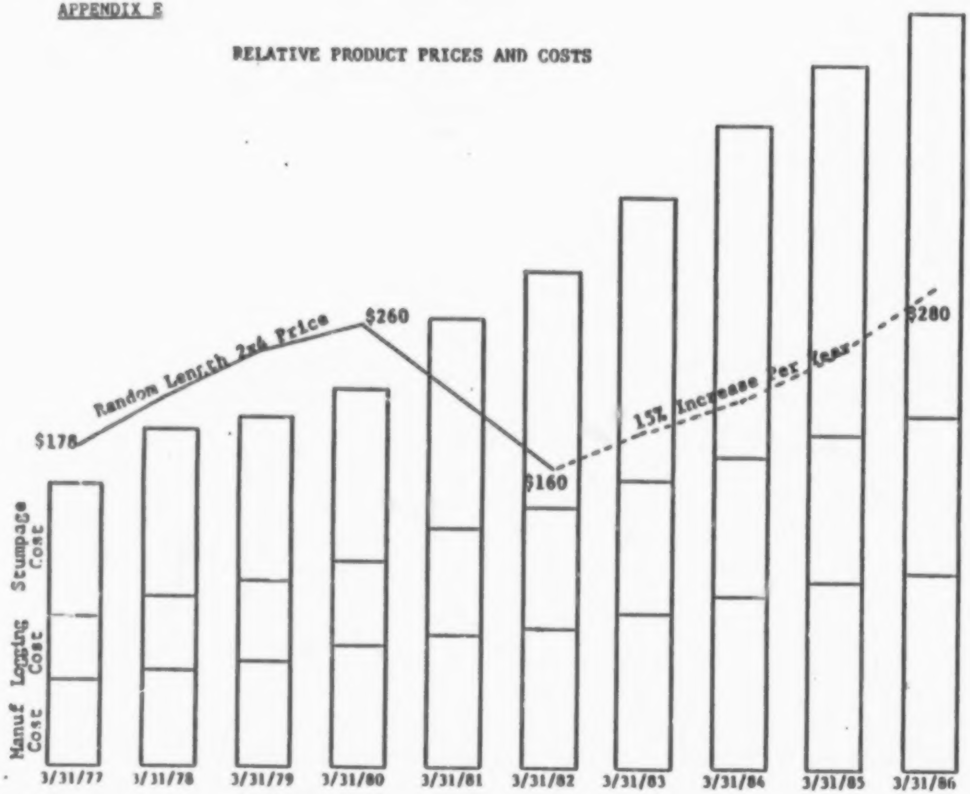
NOTES

1. Logging cost assumed to be $100.00/M for increases in Column 5.
2. At 40% termination, 180% of one year's cut will remain assuming a 3 year timber supply. Averaging complete when in Columns 10 and 11 the accumulated % passes 180%.

Calculated by: Western Resource Alliance
6/24/82

APPENDIX E

RELATIVE PRODUCT PRICES AND COSTS



Notes: 1) Based on USFS & BLM Sales currently under contract.
2) Assumes two-year extensions on BLM & USFS

A BILL

To provide for the orderly termination or extension of certain contracts for the sale of federal timber, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress Assembled,

Sec. 1. The Secretary of Agriculture for National Forest System lands and the Secretary of the Interior for public lands are authorized to--

(a) terminate contracts for the purchase of timber which were bid prior to January 1, 1982, and for which the conditions in section 2 are met; and

(b) to extend contracts under the conditions stated in section 3.

Sec. 2. (a) (1) A purchaser may terminate a contract pursuant to this Act if the purchaser--

(A) files a written request for termination within 45 days following the concurrent publication of procedures by the Secretaries pursuant to Section 6, specifically identifying each contract for which termination is requested;

(B) agrees to pay the Secretary holding the contract within 30 days of billing, a sum equal to $3 per 1,000 board feet or equivalent measure for the costs which will be incurred by such Secretary in terminating such contracts and for reoffering the timber terminated for resale, and

(C) agrees to release any claim against the United States arising out of or connected with each contract to be terminated.

(D) If a request for termination made pursuant to clause (A) is denied, a written request for alternative contracts may be filed within fifteen days of receipt of notice of denial.

(E) Payment made pursuant to clause (B) shall be in lieu of any damages, penalties, or claims that such Secretary might otherwise assess.

(2) Contracts to be terminated pursuant to this Act under which no harvest has taken place shall be terminated in full. Contracts to be terminated pursuant to this Act under which harvest has begun, shall be terminated conditionally with the termination becoming final after the purchaser has completed all contractual obligations for the units or a logical portion of a unit on which harvest had begun as determined by the Secretary. All remaining unharvested units covered by contracts also covering such partially harvested units must be terminated. The Secretary need not terminate a contract if he determines that the remaining unharvested units are not representative of all units that were to be harvested on the contract area in terms of species and logging methods.

(3) The Secretary may, in his sole discretion, require the completion of any roads specified in a contract to be terminated and the decking of right-of-way timber.

(4) Purchaser shall be current in all payments and not be in default on a contract at the time of its termination pursuant to this Act.

(5) (A) The volume of timber in contracts to be terminated shall not exceed 40 per centum of the estimated timber volume specified in the purchaser's contracts bid as of April 1, 1982 for timber from National Forest System land and public lands less any volumes cut, removed, and paid for.

(B) In addition to the contracts meeting the condition of subparagraph (A), one contract which was bid prior to January 1, 1982 but after the date of bid of all other contracts to be terminated may be terminated.

(C) The estimated timber volume terminated under subparagraphs (A) and (B) shall not exceed by more than 10,000,000 board feet (or equivalent measure) the 40 per centum limit imposed by subparagraph (A).

(D) Purchasers may, in lieu of the 40 per centum limitation specified in subparagraph (A), terminate contracts having an aggregate volume of up to 15,000,000 board feet or terminate one contract.

(b) (1) For each contract meeting the conditions in subsection (a) the Secretary shall set-off cash deposits, and purchaser credit or the timber sale appraisal allowance for the value of completed roads against the amount payable to the applicable Secretary under subsection (a) (1) (B), applying the cash deposits before the purchaser credit or the timber sale appraisal allowance for the completed roads in the set-off. The Secretary shall provide each purchaser with a statement of account which shall provide an accounting of any set-offs made pursuant to the preceding sentence.

(2) Any cash deposits that exceed the amount payable to the respective Secretary under subsection (a) (1) (B) shall be refunded to the purchaser within 60 days after the termination.

(3) Purchaser credit earned by purchasers of National Forest System timber and shown in the timber sale statement of account described in paragraph (1) that remain after set-off against amounts owed to the Secretary of Agriculture shall, at the purchaser's election--

(A) be transferred to other contracts with the Secretary of Agriculture held by the purchaser;

(B) be retained by the Secretary of Agriculture for future application by the purchaser to other contracts for the sale of National Forest System timber; or

(C) be assigned to another party with all rights attributable.

(4) The timber sale appraisal allowance for the values of completed roads made in connection with the sale of timber from public lands described in paragraph (1) that remain after set-off against amounts owed to the Secretary of the Interior may, at the purchaser's election--

(A) be transferred to other contracts with the Secretary of the Interior held by the purchaser;

(B) be retained by the Secretary of the Interior for future application by the purchaser to other contracts for the sale of timber from public lands; or

(C) be assigned to another party with all rights attributable.

(5) Purchaser shall be billed for any remaining portion of the amount payable to the Secretary after the set-off in paragraph (1), and purchaser must pay that amount prior to termination of the contract.

(c) A purchaser granted termination of a contract pursuant to this Act shall not, if otherwise eligible, be prevented on account of the termination from bidding on any resale of timber included in a terminated contract.

(d) (1) Timber included in any contract terminated by the Secretary of Agriculture under authority of this Act may be reoffered for sale without regard to the annual limitation imposed on costs of construction of forest roads by timber purchasers as specified in the fourth provision of the paragraph entitled "Construction and Land Acquisition" of title II of the Act entitled "An Act making appropriations for the Department of the Interior and related agencies for the fiscal year ending September 30, 1982, and for other purposes", approved December 23, 1981 (Public Law 97-100; 95 Stat. 1405) or to such annual limitations as may be imposed in appropriation acts for fiscal years 1983, 1984, and 1985.

(2) All terminated and/or defaulted Forest Service timber shall be resold in an orderly fashion and be included in the total allowable sales in the fiscal year in which it is offered.

(e) Until the procedures authorized by this Act shall have been in effect for 45 days, no contract that is eligible for termination or extension under this Act shall terminate or be terminated, without the consent or request of the purchaser.

Sec. 3. (a) Termination dates of any contracts for the purchase of timber from National Forest System lands or public lands that were bid before January 1, 1982, shall, without penalty or any payment which may otherwise be required, be extended, at the written request of the purchaser, by the appropriate Secretary for 5 years from the termination date in effect on the date of enactment of this Act, except that the Secretary may require the purchaser requesting such extension to complete all or a portion of the road construction set forth in the contract by a date to be specified by the Secretary.

(b) Any contract with the termination date adjusted under this section shall require--

(1) removal of 25 per centum of the estimated timber volume by the conclusion of the third operating season of the additional period provided by the adjusted termination date; or

(2) payment by the purchaser of 25 per centum of the contract price, including all payments to date under the contract, by the start of the fourth operating season of the additional period provided by the adjusted termination date.

(c) A contract shall not be available for extension under subsection (a) if it involves substantial amounts of timber subject to rapid deterioration except with approval of the appropriate secretary.

(d) On National Forests west of the summit on the Cascade Range of Forest Service Region 6, the transfer of purchaser credits during a contract term adjustment period provided by this section for roads on which construction was not begun prior to the date of enactment of this Act will be limited to transfer to sales purchased prior to the date of enactment of this Act.

Sec. 4. (a) Notwithstanding any other provision of law, amounts paid to and retained by the Secretary of Agriculture under the provisions of this Act shall be covered into the Treasury and shall constitute a special fund, which is hereby appropriated and made available for use by the Secretary of Agriculture in preparing, advertising, offering, and selling timber.

(b) Notwithstanding any other provision of law, the amounts paid to and retained by the Secretary of the Interior under the provisions of this Act shall be deposited in the Treasury to the credit of the appropriations then current and chargeable for the costs of preparing, advertising, offering, and selling timber.

Sec. 5. The last sentence of Section 4 of the Act entitled "An Act to enable the Secretary of Agriculture to construct and maintain an adequate system of roads and trails for the national forests, and for other purposes", approved October 13, 1964 (78 Stat. 1089; 16 U.S.C. 535) is amended by--

(a) striking out "authorized" and inserting in lieu thereof "directed";

(b) striking out "effective";

(c) inserting after "1975" the following: "under a contract not completed by the date of enactment of this Act"

(d) inserting after "same" the following: "or different"; and

(e) striking out all after "purchaser" the third time it appears to the end of the sentence and inserting in lieu thereof: "; where a purchaser exercises an available option to have the Forest Service construct a road, provisions for transfer of any available credit similar to that provided above in this sentence will be made using the engineer's estimated cost of construction in lieu of the agency's estimated cost of purchaser construction."

Sec. 6. The Secretaries shall publish procedures which have the effect of law implementing the provisions of this Act within 30 days after the date of enactment of this Act.

ATTACHMENT A

ATTACHMENTS TO STATEMENT OF FRED SOHN, SUN STUDS, INC.

PROJECTED BALANCE SHEET

	1982	1983	1984	1985	1986
Total Assets	$36,200,000	$35,200,000	$34,400,000	$33,800,000	$33,400,00
Liabilities	$12,800,000	$12,200,000	$11,700,000	$11,100,000	$10,600,00
Liabilities from operational losses	7,600,000	14,900,000	24,500,000	38,700,000	55,200,00
Total liabilities	20,400,000	27,100,000	35,200,000	49,800,000	65,800,00
Capital-beginning of year	22,800,000	15,800,000	8,100,000	(1,800,000)	(16,000,00
Projected loss for year	(7,000,000)	(7,700,000)	(9,900,000)	(14,200,000)	(16,400,00
Capital-end of year	15,800,000	8,100,000	(1,800,000)	(16,000,000)	(32,400,00
Total liabilities & capital	$36,200,000	$35,200,000	$34,400,000	$33,800,000	$33,400,00

Assumptions:

1. Markets for lumber and plywood remain essentially the same.
2. Contract relief is not granted and the present volume under contract is forced into production.
3. Assets and liabilities represent current book values.

Attachment B

Public Timber Supply

In Western Oregon the Federal Government, Forest Service and B.L.M. owns and controls the vast majority of the mature saw timber inventory. A few very large multinational corporations own significant volumes of mature timber but this wood is processed generally through their own plants and is not available to the independent producer.

During the past 20 years a significant industry of independent producers has developed based on the timber coming from these Federal Lands. The timber is auctioned to the highest bidder and this system has led to the development of the most efficient processors of wood products in the history of our country. It is these producers who are now on the verge of financial ruin through policies fostered and controlled by our Federal Government.

It is important to this discussion to remember that the Federal Government has a monopoly position in the timber available to the independent producers in the Northwest. And, it is this same government who has manipulated monetary policies that are now leading us to the brink of disaster.

Public Timber Purchasing Process

The Forest Service and the B.L.M. in Western U. S. offer timber for sale in contracts that provide for a certain volume to be harvested and paid for over a period of 2 to 5 years. Bidding is conducted to determine who will get each timber sale. Over the years there developed a dependent timber industry made up of sawmills, veneer mills and plywood plants. Independent loggers who bought timber and sold logs on the open market disappeared. This resulted because mills with their large investments at fixed locations had to have a reasonable degree of control of their raw material supply. In addition they needed a supply ahead.

Sales were made on the basis of bid prices to be paid when the timber was cut. This provided a reasonably certain outlook for cost of raw material and some flexibility as to when to cut during the contract period. During the Sixties the prices bid for public timber tended to increase somewhat, more due to local scarcities of supply rather than inflation. Timber sales were generally cut at an orderly rate over the entire contract period. In any given year the prices being paid for timber cut in that year on existing contracts tended to be about the same as prices being bid for new contracts, or only slightly less.

In the early Seventies the rate of inflation increased until, by the later Seventies, inflation became a household word. During this time timber supply problems of all sorts arose ranging from depletion of private inventories, to land withdrawals, Rare II, and environmental constraints on public lands. Bidding became more competitive on public sales. Successful bidders, more often than not were mill purchasers who were willing to promise to pay prices for timber that they could not expect to afford to pay until several years later. Thus, bid prices for timber sold came to greatly exceed the average prices being paid for timber being cut in that same year on existing contracts. Purchasers then would delay cutting such sales as long as possible in order to afford to cut when wood product markets were higher.

Today's situation is caused by economic events that have disrupted the workings of this procedure. Continued double-digit inflation and a federal housing program would allow the past procedure to continue, that is, the purchasers of public timber could "afford" to cut their contracts. However, national policy and programs are aimed at making inflation subside and to allow housing to languish rather than be artificially stimulated. Thus, the timber industry situation is not the industry's fault so much as it is the result of a concerted national effort to change the underlying nature of our whole economy.

Bidding History of the Umpqua Timbershed 1976 to Present

In 1976 our company was crawling out of the recession of 1974 and 1975. Product prices were starting a slow but steady improvement. Bids for Forest Service and Bureau of Land Management timber sales reflected the general strengthening of the markets. It was common to see bid premiums in the range of 10 to 20 percent over the agencies appraised price. Most companies dependent upon public timber were able to secure enough volume at reasonable prices to satisfy their needs. At this point our timber supply versus demand was in a delicate balance.

In June of 1976 our company had under contract approximately 180MM board feet of public timber. Of this total approximately 85 percent was on the Umpqua National Forest, the largest supplier in our timbershed. The rest was mostly Bureau of Land Management timber from the Roseburg District which is the other major supplier in the timbershed. The average stumpage cost for this inventory averaged $160/M for

Douglas Fir. The 180MM inventory represented just short of a two year supply of timber for our mill, which we considered a minimum inventory.

The year of 1977 brought further improvement to our markets and resulted in a further push upward of stumpage prices. By the end of 1977 our volume under contract dropped to 175MM with the Umpqua National Forest again accounting for 85 percent of the inventory. Prices for stumpage escalated upward by about 10 percent leaving us with Douglas Fir at approximately $180/M.

The year of 1978 followed the same pattern as 1977. Markets continued to improve and stumpage prices continued upward. Our volume under contract moved up to 185MM board feet and the average Douglas Fir stumpage rose to $210/M, a raise of over 15 percent. This year signalled the entry into our timbershed of outside bidders primarily from the Eugene area. These were basically legitimate operators who had been forced out of their traditional timber supply areas because of the extreme competition for timber.

What happened in Eugene is no secret. One operator decided it was time to secure a large timber inventory to corner the market. The individual involved was Amos Hoerner who was the key principal in two companies, All American Stud and Tomco. In September of 1977 these two companies had a combined volume under contract on the Willamette National Forest of 39MM board feet. By September of 1978 this volume was increased to 81MM board feet and by March of 1979 it had ballooned to 230MM board feet, an increase in 18 months of almost sixfold. This acquisition of very large volumes at extreme prices tipped the supply-demand balance, drove up prices and forced operators to move to other areas. Our timbershed was located just to the south and so they came.

The year of 1979 started in earnest the irrational bidding for public timber. We used every appraisal device imaginable attempting to justify the $400, $500 and $600 stumpage prices that were being bid. We could not find one, short of adding yearly inflation increments in the range of 10 to 12 percent to just get close to these numbers. Because of the intense competition we, like our neighbors to the north, were forced to move into areas outside our timbershed to secure our raw materials.

At this point a further complication was added to the timber bidding war which was now in full swing. Several other operators in Southwest Oregon decided as did Amos Hoerner that now was the time to build a large timber inventory. In the Roseburg timbershed one small operator began to bid very aggressively for public timber with this goal in mind. This operator started with a 10MM board feet inventory which equaled one years needs for his mill and in a short 24 month period expanded it to over 60MM board feet. Our company ended up bidding an extra three million dollars for stumpage during this period just trying to protect our own needs. The cost to other operators in the area was many times this amount.

Both of these operators have now gone out of business leaving the Federal Agencies and the bonding companies to fight over the damages.

At the end of 1979 our volume under contract had dropped to 165MM board feet. To maintain this volume we were forced to bid inflated values and our average Douglas Fir stumpage rose to just under $300/M, an increase from the previous year by over 40 percent. Most distressing was the fact that our volume under contract on the Umpqua National Forest was now below 70 percent, a drop of over 15 percent. Thus at the end of the year we found our volume under contract was below what we considered a minimum acceptable level, the price was up by over 40 percent and we were now forced to bid in other timbersheds to maintain our inventory.

The year of 1980 was a repeat of 1979. Bidding, if anything, intensified. Our average Douglas Fir stumpage at the end of the year raised to $400/M, an increase of another 30 percent over the previous year. Our volume under contract rose to just over 200MM board feet, but the percentage on the Umpqua, our normal timbershed, dropped another 5 percent down to 60 percent of our total. Basically the recovery we made in timber inventory was done so in adjacent timbersheds.

The year of 1981 started a repeat of the bidding of 1979 and 1980. By this time, however, the effect of the market collapse was now being felt and bidding began to ease up. By the end of the year prices for Douglas Fir stumpage had dropped to 1978 levels.

Today prices for timber are further declining and are now getting much closer to the marketplace except for isolated instances. We are, however, saddled with sales purchased in desperation bidding in 1979, 1980 and early 1981 that would spell quick economic ruin to us if we had to operate them. This situation is common for most of the Independents who operate on public timber in Western Oregon.

The following graph shows the dramatic increase in the timber bidding in Western Oregon from 1962 to 1980. The second graph shows how this bidding affected the average cost of our timber inventory.

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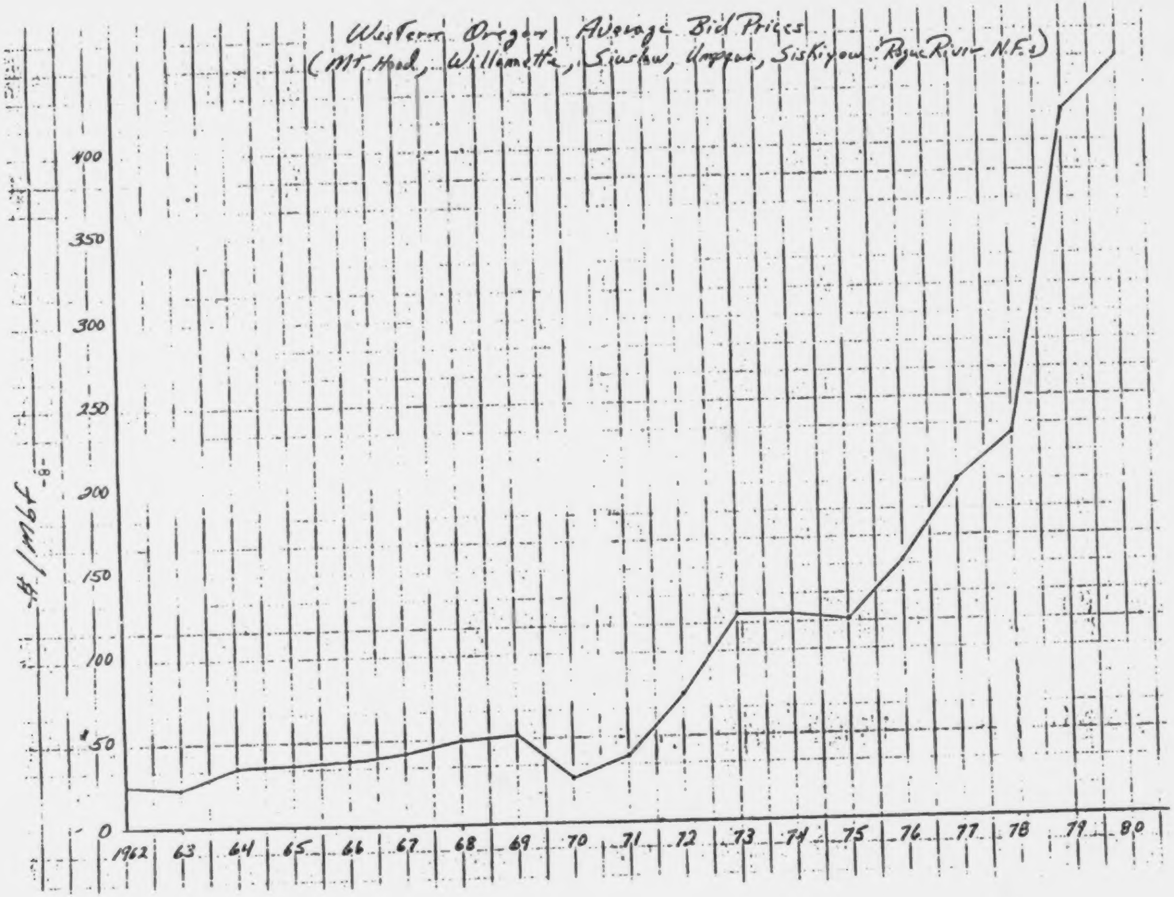
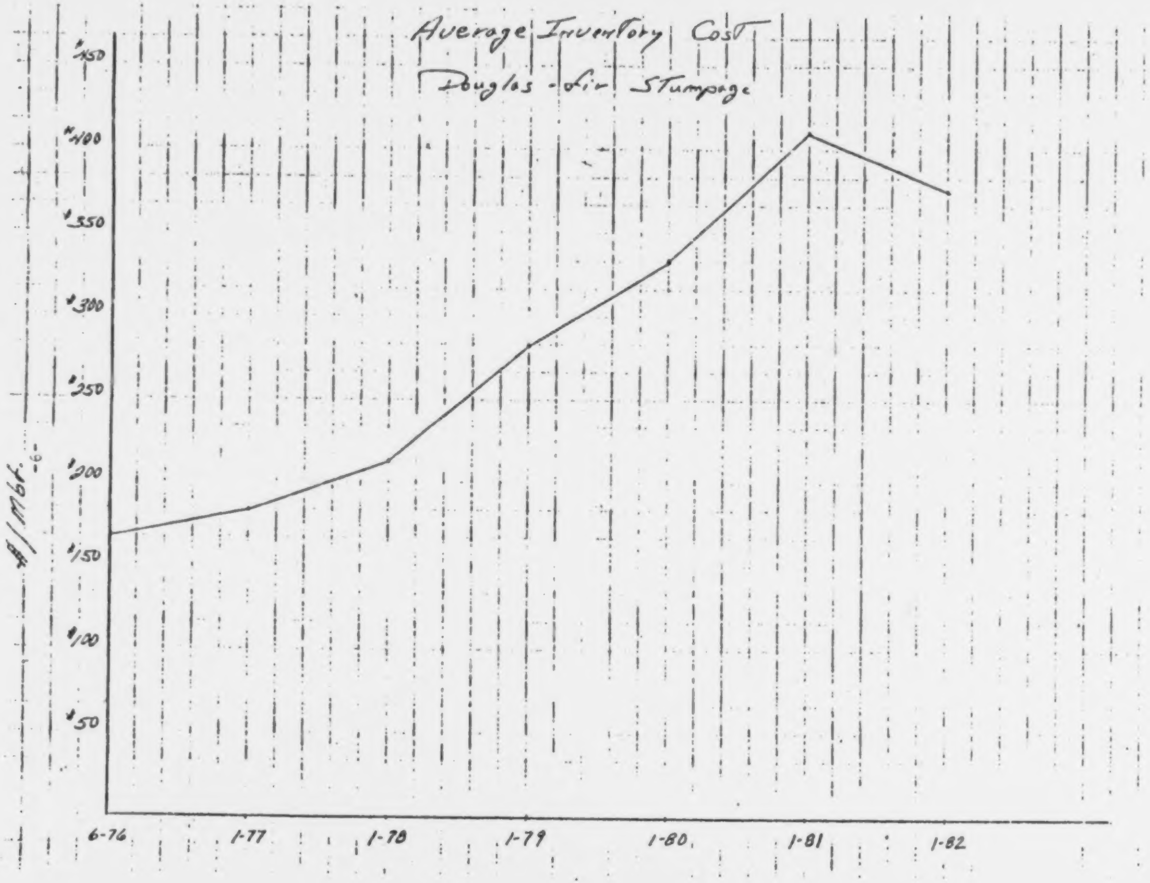

Western Oregon Average Bid Prices
(Mt Hood, Willamette, Siuslaw, Umpqua, Siskiyou, Rogue River N.F.s)


Average Inventory Cost
Douglas-fir Stumpage
$/mbf.
$450
$400
$350
$300
$250
$200
$150
$100
$50
6-76
1-77
1-78
1-79
1-80
1-81
1-82

Primary Causes of the Intense Bidding

If I had to summarize the basic causes that led up to the past five years of insane bidding, I would rank them in this order:

1. Fixed and Declining Timber Supply

   Most people simply do not realize that an inadequate timber supply is the key factor which led to the excessive bidding we witnessed these past few years. What they fail to understand is that while National Forest cuts in the West have only modestly declined, the total harvest from all sources--Forest Service, Bureau of Land Management and private--as an aggregate have declined dramatically [illegible] will continue to do so. This overall timber supply decline is the source of most of our timber bidding problems, and until people recognize this fact any solutions will be purely cosmetic.

   Uncertainty of raw material supply has been a driving force on the western timber industry where public timber is so important. Much of this uncertainty has been an unnecessary result of public policies and attitudes rather than real shortages. Therefore, a large portion of recent stumpage price increases has been artificially stimulated.

   In addition, the fixed annual sale programs of the public agencies does not respond either up or down to market demands and further contributes to the large stumpage price fluctuations.

2. Federal Government Monetary Policies

   The highly variable monetary policies of our Federal Government have forced housing into the boom-bust cycles of the past decade and fed the fires of demand and intensified the competition. Inflationary pressures have further aggravated the situation.

3. Federal Agency Timber Selling Policies

   The free-for-all competition for public timber causes mill operators to be thrown into the pot with all comers to compete for timber. This system provides no protection for the operator who has millions of dollars invested in fixed plants and equipment, and no guarantee or assurance that he can successfully acquire raw materials to operate his facilities and recapture his investment. During the heydays of the bidding we even had a used car dealer, with absolutely no interest in the industry, successfully bid a major timber sale running out all competitors.

The Plight of the Public Timber Purchaser

Lumber and plywood are the primary products made from public timber in the West, with pulp logs and pulp chips an important related product. There are many kinds of lumber and of plywood, varying by the kind of timber used and the use to be made of the product. The markets are competitive and prices are responsive to supply and demand. The Western U. S. timber industry competes among themselves and with producers in Canada and in the South. The plight of the western producers in regard to costs of public timber has already allowed the Canadians and the South to capture more of the markets. Western producers are shut down or on curtailed production. It is important to realize that relief from high priced public timber sale contracts will not allow purchasers of public timber to displace production elsewhere but will simply let the western industry maintain its reduced share until the end product markets improve substantially. Relief is needed to survive. The design of relief measures must be such that total production will not be stimulated to increase without an increase in wood products demand. Furthermore, relief should not cause production to shift significantly from one local or regional area to another. The objective of relief should be to maintain a viable western timber industry in terms of their capacity to help meet the needs of a housing and wood products market recovery several years from now.

Criteria for Contract Relief

We share your alarm at the prospects of massive defaults on Federal timber contracts. Unfortunately this prospect is becoming more and more real as we look ahead at the very limited opportunities of moving this high priced timber under contract into a very limited marketplace. Forced operation of our public timber contracts would quickly make us insolvent. Our example is not unique. Most of the Independents with whom we are familiar are in similar situations, as are many publicly held corporations. Most distressing is the fact that Federal Government policies are responsible for us being in this condition.

In presenting our proposals for contract relief we have attempted to consider the following points:

1. Relief must result in reduced cost of timber under contract and avoid creating pressure to cut.
2. Relief must be moderate so as to not over stimulate production and thereby depress wood products market prices further.
3. Relief should be equitable and available to all public timber purchasers. It should be designed to assist purchasers independently of their overall size or their degree of dependence on public timber.
4. Similar measures should be provided on all federal timber; national forest, B.L.M. and other agencies.
5. Relief should not be at the expense of local governments. It should result in maximum possible returns, given the poor market conditions that exist.

WESTERN RESOURCE ALLIANCE

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Eugene, Oregon 97401
503-726-1766

TESTIMONY OF
PAUL F. EHINGER
EXECUTIVE VICE-PRESIDENT
WESTERN RESOURCE ALLIANCE
EUGENE, OREGON

Before the
House Committee on Agriculture,
Subcommittee on Forest, Family Farms and Energy

August 17, 1982

My name is Paul F. Ehinger. I am executive vice president of Western Resource Alliance, headquartered in Eugene, Oregon. WRA is an association of western timber companies which share a common interest in federal timber policy because they are heavily dependent on federal timber as their source of raw material supply for lumber and plywood manufacture.

There are several key points about the current timber economic situation that are not easily understood. The current problem of the industry dependent on public timber in the West has been generally characterized as one merely of "hurt" or "injury." Most people not directly involved have failed to fully comprehend the magnitude of the problem.

The problem can only properly be described as survival-- the industry has been "hurt" and "injured" for the past two and a half years. We are here before Congress to stop the bleeding before the death of that portion of the industry primarily dependent on public timber.

The first two tables included with my testimony (Tables 1 and 2), clearly show that the lumber and plywood markets today are below the price levels of any markets experienced in the last five years, the period during which operators committed themselves to their current timber supply. The lines show a continued downward trend. The housing market shows no promise of an early return. All other projections keep pushing recovery deeper into the distant future.

Last September we first recognized that some major changes would have to take place if the public timber sector was to continue as a viable segment of the forest products industry. At that time we thought we were at the bottom of the market and that recovery of a modest nature would begin in 1982. How wrong we were is indicated on Table 3, which shows the actual prices paid for three main commodity items: one-half inch CDX plywood, one-tenth inch CD veneer, and standard and better Douglas fir 2-by-4's. These figures show that today's prices are more than 15%, 30% and 24% respectively below the prices of a year ago.

In terms of significance to the timber purchaser, the most dramatic change came this spring when CD veneer dropped $6 per thousand in just two months from the middle of March to the middle of May. This figure, converted back to standing timber prices, reduced the operator's margin by from $75 to $90 per thousand board feet log scale, depending on mill efficiency.

Table 4 graphically demonstrates the difference between the present product market and the stumpage prices now being bid in anticipation of a lack of economic recovery. This lack of recovery stands in stark contrast to the predictions by all leading economists through the early months of 1981. One of the leading economic forecasting firms relied on by the industry predicted during the first quarter of 1981 that by today, we would be selling Douglas fir 2x4's for $390 per thousand board feet. Today's price is actually $160, far less than half the prediction. People talk about the depressed auto industry, but you don't find cars selling for half price.

Translated back to the cost of timber, today's prices mean an operator's break-even point has changed by a minimum of $350 to more than $400 per thousand. The prices bid until recently for timber have been termed "foolish" and "speculative". Yet based on respected economic forecasts, most of them were well within the range of profitability that had been projected.

The final problem, addressed in Table 5, is the magnitude of the financial losses which will be experienced by operators. One of the leading bank economists who analyzed the statistics several months ago said that the price of timber under contract by a typical mill dependent on public timber was approximately three times the asset value of the mill.

Table 5 was developed by applying the current average market log prices in western Oregon to the Forest Service appraisal log grades so as to arrive at current values for the timber in each particular sale on three National Forests of western Oregon: the Siuslaw, Willamette and Umpqua. These individual sale values then were aggregated for each contractor's entire volume under contract.

The 25 operators shown (without names) were selected as representative of a list that included the contract holders of more than 5.5 million board feet of the 7.8 million board feet under Forest Service contract in western Oregon as of March 31, 1982.

The aggregate loss if harvest of this timber under contract in these three forests alone were required at today's prices would be $1.35 billion (B-billion). The potential losses for some of these operators just on these three forests include amounts such as $11.8 million, $28.9 million, $21.4 million, $42.2 million, $4.5 million, $12.9 million and $80.4 million. Some are even higher. If the remaining National Forests of western Oregon and the BLM forests were included, the aggregate figure would almost certainly soar past $2 billion. Losses in other parts of Oregon and other states would send the total even higher.

If harvest or default is forced onto these western Oregon operators, total and complete bankruptcy is assured for the majority of them. If that is permitted to occur, the effects will spread with devastating effect through the dozens of small communities where these mills are located.

From the government's position, there will be little possibility of collecting even 10¢ on the dollar from the damages process. The other losses in terms of harm to communities, unemployment for workers, and loss of timber revenues to the local and federal governments will be staggering.

In the present and future economic climate, and given the magnitude of the problem, it is powerfully obvious that aggressive action on a solution by Congress is needed quickly.

TABLE 1

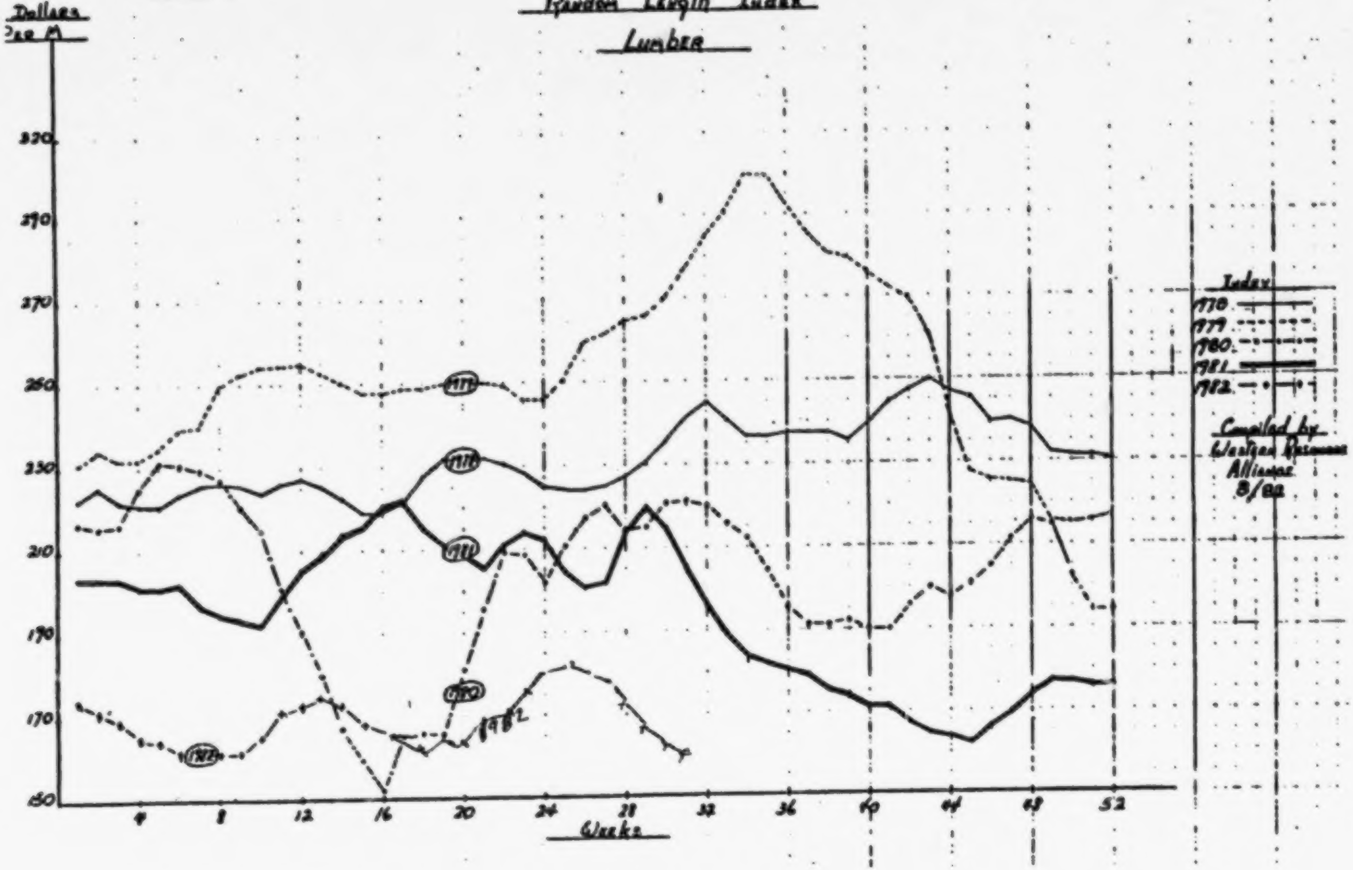
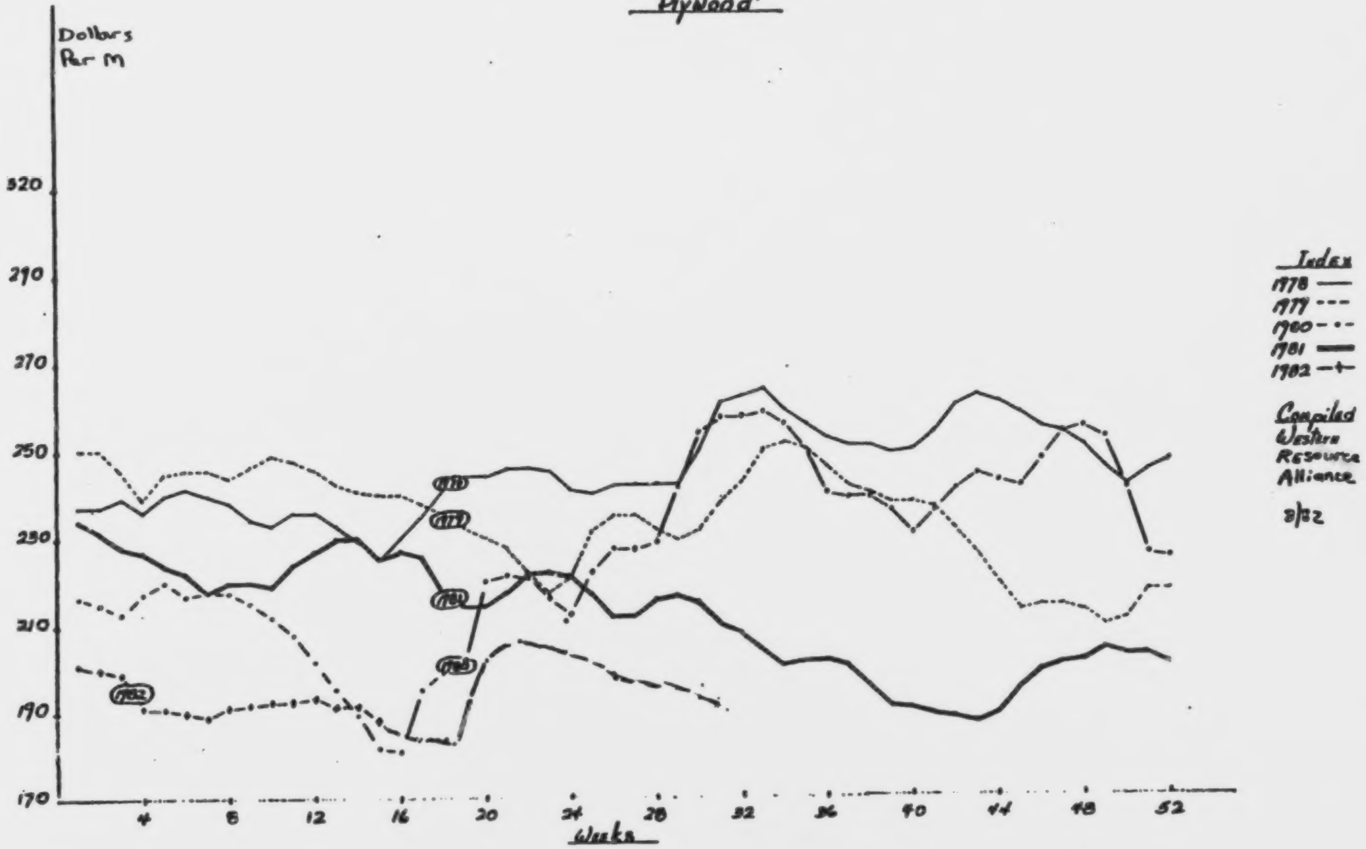

Random Length Index
Lumber
Dollars Per M
320
290
270
250
230
210
190
170
150
4
8
12
16
20
24
28
32
36
40
44
48
52
Weeks
1979
1978
1981
1980
1982
1982
Index
1978
1979
1980
1981
1982
Compiled by
Western Resources
Alliance
8/82

TABLE 2

Random Length Index

Plywood



Compiled
Western
Resource
Alliance

8/82

TABLE 3

PRICES NET F.O.B. MILL

(Figures in Dollars per Thousand Board Feet)

Date	Plywood 1/2" CDX 4/5 Ply	Veneer 1/10" CD	Lumber 2x4 Std. & Btr. Random Green (Portland)
1981			
Aug. 14	$196	$25.50	$185
Sept. 11	189	24.75	172
Oct. 16	178	24.50	165
Nov. 13	189	23.75	154
Dec. 18	189	25.25	163
1982			
Jan. 15	181	25.00	158
Feb. 12	178	24.25	143
Mar. 5	177	24.50	150
Mar. 12	177	24.00	160
Mar. 19	175	23.25	165
Mar. 26	175	21.75	165
Apr. 2	171	20.50	168
Apr. 9	168	20.00	165
Apr. 16	162	19.75	158
Apr. 23	163	19.25	155
Apr. 30	162	18.50	155
May 7	159	18.00	152
May 14	162	18.00	155
May 21	173	18.75	153
May 28	176	20.00	151
June 4	175	20.50	151
June 11	170	20.50	151
June 18	168	20.00	153
June 25	165	19.25	153
July 2	164	18.25	151
July 9	163	17.75	150
July 16	166	17.00	148
July 23	168	16.75	143
July 30	166	17.25	140
Aug. 6	165	17.75	140

Source Data: Randon Lengths
Compiled By: Western Resource Alliance
8/13/82

TABLE 4

DOUGLAS FIR LUMBER AND STUMPAGE PRICES

(Dollars Per Thousand Board Feet)

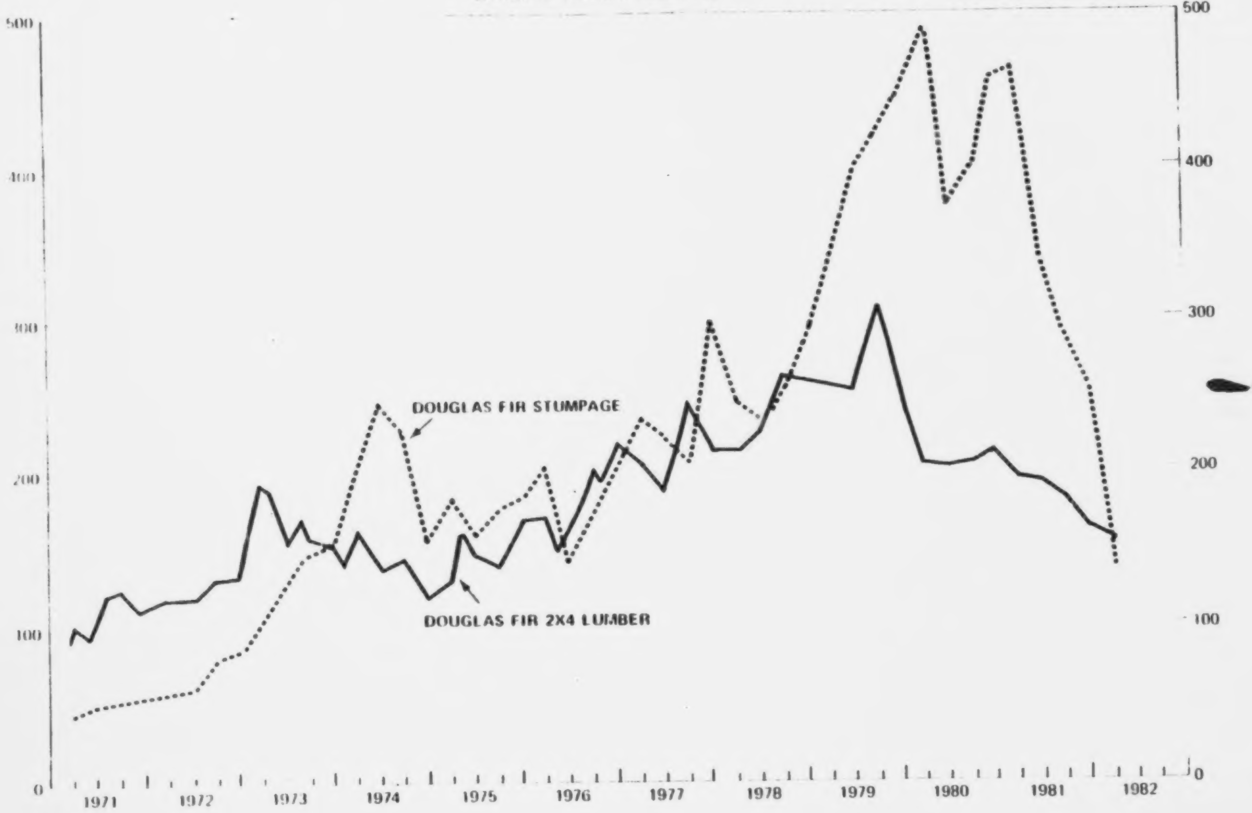


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TABLE 5

Total volume of U.S. Forest Service timber under contract by 25 selected operators on Siuslaw, Willamette and Umpqua National Forests of western Oregon, showing total dollar loss on today's market based on current (August 1982) log values, and volumes under contract at 3/31/82.

CON-TRACTOR	NUMBER OF SALES	MONTHS LEFT ON SALE	VOLUME REMAINING MBF	AVG. BID PRICE PER MBF	LOSS TO MARKET PER MBF	TOTAL DOLLAR LOSS
A	5	22	56.0	$287	$210	$11,848,000
B*	6	6	3.3	222	185	615,000
C	8	22	32.6	279	245	7,999,000
D	21	29	98.2	381	295	28,955,000
E	14	22	45.5	224	159	7,243,000
F	18	28	92.5	352	294	27,212,000
G	13	23	70.6	403	303	21,393,000
H*	2	11	1.4	242	258	368,000
I	34	27	187.8	320	225	42,250,000
J	7	25	41.2	441	318	13,098,000
K*	6	5	1.2	244	138	167,000
L	22	24	136.2	278	201	27,312,000
M	34	24	176.2	298	221	38,929,000
N	21	23	150.0	341	230	34,494,000
O	4	20	13.9	472	359	4,994,000
P	38	32	299.3	322	269	80,438,000
Q*	1	9	.4	240	252	98,000
R	18	24	132.0	304	230	30,370,000
S	19	24	143.0	368	272	38,917,000
T	12	20	49.6	350	261	12,946,000
U*	1	9	1.0	199	109	109,000
V*	10	46	49.7	380	314	15,603,000
W	48	27	281.2	352	283	79,400,000
X	10	32	62.5	429	333	20,811,000
Y	2	21	12.3	409	311	3,828,000

*Loggers and operators without a mill.

8/13/82

NORTHWEST FOREST WORKERS ASSOCIATION
795 Willamette Street/#314
Eugene, Oregon 97401

Statement of Richard Koven
Northwest Forest Workers Association

My name is Richard Koven. I represent the Northwest Forest Workers Association. We are a federation of sixteen workers' cooperatives located in Oregon, Washington, and Montana, with 800 individual members. We are in the business of contracting forest management services principally with the United States government. Our people replant harvested sites and tend young stands of timber throughout the Western United States.

I am here today representing forest workers. We are not timber purchasers, nor are we environmentalists. We are a labor group.

Our association has been intensely involved in the debate over timber sale policy during the past year. We have actively opposed the extension of timber sale contracts. We have worked closely with the major labor unions of the Northwest, with representatives of local government, with conservation groups and other concerned parties to insure full public disclosure and debate on this important issue.

We have not, frankly, seen eye to eye with the timber purchasing groups on these various proposals for timber sale modification. We understand that it is they who hold the contracts. We understand that they are in trouble. We agree that the purchasers need relief. However the relief granted must be equitable. It must take into consideration the fact that timber purchasers are but one small constituency in the timber industry, only one group among the great many affected by timber sale policy.

The purchasers hold the actual timber sale contracts. Yet, it can be argued that there is also an implied contract ~~for the harvest of~~ that timber with all the citizens of a timber-based economy. After all, we know five years in advance what levels of timber harvest to expect, becuase those levels are guaranteed by contract with the United States government. We literally base our economic future, our livelihoods, on that guarantee.

When the logs stop rolling out of the forest, when the timber sale contract system breaks down -- which it has -- when the promise of normal harvest levels is broken -- which it has been, wide spread economic disruption ensues in communities dependent upon the timber economy. This is the story of the Northwest today.

When the logs stop falling in the forests the mills shut down. But not only do mill workers lose their jobs, the loggers, the truckers, the treeplanters -- we all suffer. The whole service economy falters. School systems, county government, state government, are all brought to their fiscal knees.

My point is that we are all in trouble -- not just the timber purchasers. We all need relief. Yet, you will not see us asking for relief for our workers. We will not be asking for upward modification of reforestation service contract prices, we will not be asking for terminations of our home mortgages. We will not be asking for five year extensions on our unemployment benefits.

Perhaps we will not ask because we don't have the audacity. More likely, however, we are not asking for government to step in and cure every one of our symptomatic economic aches and pains because we understand that true relief will not come until the source of our economic problems is changed. We recognize that true relief for woods workers will not come until the economy turns around, until interest rates fall, until housing starts increase, and the woods products industry is back on its feet.

In the meantime, it does seem appropriate to focus relief efforts on timber sale contracts. These contracts are very much the key to our economic survival. In regards to the relief you grant on timber sale contracts, I ask only that whatever you do, don't make it worse for those of us who work in the woods. We are barely eking out a living now. We project that next year's demand for reforestation services will be 40% of normal. But we can survive. We can ride this thing out if and only if government does not deliver any further blows to our industry.

In that light, I ask you to examine the proposed legislation in regards to the balance of interests among those effected. In our minds, equitable relief is that which maximizes harvests while minimizing unbearable hardships on the purchasers. Look at each component measure in the bill and ask "does this maximize harvest," because maximum harvest means maximum employment and maximum flow of revenue to federal state and local government.

Specifically to the bill:

We strongly endorse the opening sentence of Section 2 which calls for a showing of economic hardship. Any relief not requiring such proof of need would clearly be a give away program. It would be a wholesale bailout, a direct subsidy of the industry paid for by our unemployment and at great cost to the taxpayers. Let the record show that legislative intent is strong on this point. Only those purchasers truly in need, and only those sales which are truly inoperable should be granted relief.

We also strongly endorse the concept of purchase price modification. Clearly this is the fastest, the most effective way to put the industry back on its feet. If you do nothing else, lower the prices, because that will get us back to work. It is my understanding in talking with the union people, that price modification is the unanimously favored form of relief for those of us on the labor side of this industry.

On contract terminations: We support them reluctantly, with grave reservations, and not without strong qualifications. Terminations are the most radical form of relief proposed. The limitation placed on terminations should be severe. Contracts should only be terminated if they are wildly overpriced, if the purchaser is in an intolerable financial position. The gross numbers and volume percentage of sales terminated should be limited as much as possible. Most importantly, the timber involved in terminated contracts should immediately, and completely be resold on the market. If it is not, you will have effectively stolen all the jobs and all the revenues associated with that timber from the present and deferred that wealth to a long-term and quite uncertain future. Terminations are a radical intervention on the part of government into the marketplace. Contract terminations should be a last resort.

Extension of timber sale contract deadlines is bad public policy. The best action you could take in the interest of those of us who work in the woods is to remove the extension proposal from consideration. Extensions are both unnecessary and unbearable.

The only good argument I have ever heard in favor of extensions is that they give us breathing room -- some time to sort things out. However, we already have two year extensions in place. We have already had the time to sort things out.

The two year extensions provided us with the time to deal with the industry's problem. That is why we are here today. If Congress passes this legislation, with contract price modification and contract termination, then we don't need anymore extensions. You cannot extend a terminated contract and it would be scandalous to allow extensions on contracts whose price has been adjusted. The inclusion of extensions in this legislation is a hedging of bets. Extensions would say that we do not believe the legislation as a whole is going to work.

What is wrong with extensions is that they are a real disincentive to logging. This is exactly what we do not need. Extensions have a tendency to lock the woods up and put our industry on ice.

Extensions are nothing less than the public subsidy of standing timber inventories held by private companies. This subsidy is paid for with our loss of jobs and with the loss of revenue to government. I want to impress upon you that with every sale you allow to be extended, you are also extending the misery of unemployment for loggers, tree planters, truckers, and mill workers. You could do nothing worse for labor, then to extend timber sale contracts.

It is contended that extended contracts will be harvested as soon as they are operable, and that in the meantime extended sales will be replaced by operable short term sales. This is the so-called "blending" theory. I don't buy it. The problem with "blending" is that it is frought with unsubstantiated contention, with threats, and with promises. Purchasers are contending that virtually all of the sales are inoperable. They are threatening to default on those contracts. They are promising to harvest extended contracts as soon as possible. These are the same companies that promised to harvest billions of dollars of timber at prices contracted for. Now, we find that they are _not_ inclined to keep those promises. Why should we believe that their behavior will change in the future?

Extensions, when blended with terminations and price adjustments put industry in an unprecedented position. In this position, industry will be able to precisely determine when, where, and at what price to harvest timber. This represents incredible economic control. This control will be used, of course, to maximize industry profits. It leaves labor and government in a very vulnerable position. We only have their promise that our interests will be considered.

By law, extensions are only to be granted when they are in the "substantial overriding public interest." They are not. They are not in the interest of labor or government and, in fact, are merely in the interests of a small segment of timber purchasers. Extensions are bad public policy. They put all our problems out in _front_ of us, and not _behind_ us where we to want them.

Finally, I would like to outline briefly three positive steps that Congress might take to improve present and future conditions in the timber industry.

I think a need has been demonstrated for Congress to examine the fundamentals of how the government sells timber. At the heart of our problem may be the fact that the government is selling long-term futures, and as it seems to be turning out, only options on timber. After this mess is finally sorted out, we may find that the public interest is best served by selling logs at auction, and not by uncertain timber futures.

Congress should give strong support in the FY 83 budget for the short-term timber sale program and the small salvage sale program. Both of these programs are expedient and viable options for keeping our mills operating and our people working. I ask for your support in this matter because it is my understanding that the Forest Service is experiencing funding shortfalls for the administration of these programs. It would seem unfortunate if we underfund these programs when they cost so little to operate and bring such sorely needed economic benefits to both industry and government.

Finally, we ask your support for a generous forest management budget for the Forest Service in F.Y.83. We desperately need these jobs. I ask for your support on this matter.

In conclusion, I appreciate the opportunity to bring a message from Oregon, a message from the woods workers. We ask only that you provide our industry with truly equitable relief. We ask that you do what you can to get our timber harvested so we can get back to work replanting the forests. THANK YOU.

TESTIMONY OF

JAMES F. STOCK

Mr. Chairman, and members of the Committee, my name is James Stock. My family owns sawmills in Sweet Home and Lakeview, Oregon. We are a very small company with less than 100 employees at both locations. My mother and father founded our company following World War II and have struggled together for over thirty-five years to keep people working. There have been good times and bad times but these businesses have provided a meaningful life for ourselves and our employees. Now a second generation manages these companies with a third generation well on the way. Second generation employees are taking the places of their retiring fathers. We share together with our employees in a continuity that facilitates a stable community.

We purchase timber exclusively from the Department of Agriculture-Forest Service. Some of these logs we purchase in timber sales and log ourselves; others we acquire in trades with other companies in order to best utilize the cutting capabilities of our sawmills. Our sawmills are both "cutting mills", meaning we cut mostly specialized products for the industrial market as oppossed to dimensional lumber for housing.

The two Oregon communities where our sawmills are located are both timber dependent communities. Without the wood products industry these communities would lose their economic base. Our major concern in the matter before us relates to the survival of these communities. I am talking about my neighbors, the parents of the children my children go to school with everyday. Already one timber company with over 140 employees has closed its doors this year and put those families out of work.

Another major concern for our company, and others like us, is our emerging precarious position with the bonding companies. As this economic crisis in the wood products industry continues, all companies with large volumes of expensive timber under contract continue to be an even greater liability to them. When the Forest Service sells timber the buyer is required to arrange a performance bond prior to the letting of the contract as a guaranty that the buyer will remove the timber as agreed upon. Also, as we remove the timber it is further covered with a payment bond which guarantees we will pay our monthly timber bill. The present volume under contract is so expensive it will never be removed and many companies are facing contract default and bankruptcy. The massive liability facing bonding companies has them seriously disturbed. It is becoming increasingly difficult to obtain bonding. The only alternative to bonding, if we are to operate, is cash. There is no way we could possibly continue to stay in business if we were to tie up huge sums of working capital in security agreements with the United States Government. It is obvious the bonding companies will then only do business with the large publicly held companies, forcing people like ourselves into extinction. My family, and others like us, have continued to express our committment to our communities and our industry by committing our asset base to the building of new modern manufacturing facilities that enable us to improve our product and stay active in the market place. Just this past year my family invested several million dollars in a new mill for the generation to come. All through this economic recession we have kept our plants operating and our people working, despite the fact we are losing money and paying huge interest bills. The only possible light at the end of the tunnel in these times is a less expensive timber base. We are committed to operate and deplete our assets as long as it is possible.

This past year I have spent many, many hours in meetings with other representatives of this industry, struggling to develop a concensus on how we can get ourselves out of this very serious predicament so that we can save an industry as well as the many supporting communities that are dependent upon our being a stable industry. Companies of all sizes shared in this together. I was proud of the ethical sensitivity of the industry, the willingness of men to work toward a higher good than just their own vested interest. It was not an easy process. There was a lot of intense anger, frustration and hostility. These good men stayed with the process until we worked out a compromise no one really liked in many ways, but one we could live with. By mid-July the industry, by and large, had agreed upon this proposed legislation. As of this moment the legislation generated out of this painstaking, patient process has not yet been introduced. This bill is a true compromise, as stated earlier. No isolated segment of the industry is totally happy with the bill, but we all believe we can abide by it and survive.

I realize the great difficulty of convincing this committee in a few short hours what took us a year of painful processing to arrive at. We are not asking for a "free ride" or a bail out. The timber industry is not totally responsible for the economic recession that makes it impossible for American families to build houses or buy cars, or for the high unemployment rate. The conditions under which we committed ourselves to these contracts no longer exist. We need a fresh start, a renegotiated agreement with the seller of these goods, the United States Government. If this can not be arranged there will be untold casulties in our industry, very few survivors, very few customers to purchase the resource you plan to sell the next couple hundred years and beyond. I plead with you to give careful consideration to our proposal.

[redacted]

SOUTHERN FOREST PRODUCTS ASSOCIATION
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STATEMENT OF
HARRY WILLIAMS
PRESIDENT OF THE
SOUTHERN FOREST PRODUCTS ASSOCIATION
BEFORE THE
SUBCOMMITTEE ON FORESTS, FAMILY FARMS, AND ENERGY
OF THE
HOUSE AGRICULTURE COMMITTEE
UNITED STATES HOUSE OF REPRESENTATIVES
ON
TIMBER SALE CONTRACT MODIFICATION
AUGUST 16 & 17, 1982

I am Harry Williams, president of the Southern Forest Products Association, whose headquarters are in New Orleans, Louisiana. I am also President of Williams Forest Products Corporation, Cleveland, Texas. We are very grateful for the opportunity to testify at these hearings and I want to congratulate Representative Weaver for wanting to do something constructive about a very bad situation.

The member companies of our Association have operations in Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, North and South Carolina, Oklahoma, Tennessee, Texas and Virginia. Their mills account for almost three-fourths of the total Southern Pine lumber production. Our members have been gravely hurt by the collapse of the housing market which has plunged our industry into its worst crisis since the Great Depression of the 1930's. Southern Pine lumber production and shipments have been running 30 percent below normal and the unemployment rate at our member mills has risen above one-third.

We are aware, of course that our plight in the marketplace is shared by Western lumbermen. We also know their problem has been aggravated by the very large amounts of National Forest timber contracted for in the late 1970's at higher prices than you can sell lumber for today. We feel that massive defaults on these contracts by Western operators would not only be catastrophic for the timber economy of that region but also for us, since under current Forest Service policy the defaulted timber would have to be placed back on the market in amounts far exceeding current demand levels. The resulting "glut" of the market place with Western National Forest timber at extremely low prices could be disastrous for Southern lumbermen who get most of their raw material from privately owned lands. Not only would this competition force down the prices of private timber -- to the great detriment of the South's two and one-half million nonindustrial private forestland owners -- but would also adversely affect the stock values of timber companies owning forestland in our region.

So it is with an instinct for self preservation as well as our desire for recovery of the timber economy in all producing regions that we look with sympathy on the quest of the western operators for legislative relief from their contractual problems.

However, we cannot support efforts to provide for the comfortable recovery for our Western friends at the expense of the industry and jobs so vital to our region. We are aware that with more than one-third of our member mills closed down we can ill afford any further contractions of an already depressed lumber market. Therefore, we are determined that in our efforts to help solve the Western contractual problem, we do nothing that will compromise our own situation.

Evidence indicates that lower stumpage prices for National Forest timber in the West have made it possible for that region to capture a larger share of our backyard lumber market, inspite of substantially higher transportation costs.

The Western Wood Products Association reports that in the first six months of 1982 the South took a larger share of lumber from Western sawmills than at any time since 1970. This is not difficult to comprehend when one considers some of the advantages Western operators have even under present market conditions.

A comparison of minimum bids and average successful bids between Forest Service Region 6 in the Northwest and Region 8

Forest Service in the South is significant. In 1980, Region 8 had an average advertized minimum bid of 139.56 compared to 87.02 in Region 6.

Successful bid prices that year in Region 8 averaged 195.89 whereas in Region 6 they averaged 306.84. The figures for Region 6 are averages of East and West side prices, which are substantially lower in the East.

From these 1980 figures, it seems obvious that in relatively good times the cost of successful bids in the West prices their product out of the South. But then they don't need to because they can sell their production at home.

But lets compare some more recent statistics. In June 1982 the average minimum bid for Region 6 timber was $41.72, less than one-half the average of 1980. Successful bid averages were $79.58 only one-fourth of the average price in 1980.

In Region 8, quite the opposite was true. In June 1982, the average bid price was $134.22, only 5 dollars less than in 1980.

Successful bids averaged $149.77, more than 3/4's the 1980 price and $70.19 more than that for National Forest timber in the West. With that differential its small wonder that more Western lumber has found its way South. Our problem is aggravated by the Canadian Government's subsidization of their industry, but that is another matter.

There are other advantages that Western operators have such as log scaling which does not exist in the South, a different bidding procedure, more advantageous Forest Service Contracts, and requirements to put less money down and more.

We therefore, are considering some agreement which will allow survival of the Western industry without unnecessarily imperiling the survival of our own. With respect to this, the chronology of our involvement with the issue is illuminating.

On January 28 of this year, our Executive Committee adopted a resolution approving extensions of Federal timber contracts but opposing terminations and rollbacks. Then, as the magnitude of the crisis in the West became increasingly obvious, our position changed. At our midyear meeting in early June, we voted to rescind the earlier resolution on termination and to actively support relief legislation, provided that it contain certain stipulations and provisions.

Since the June meeting, our officers and executive committee have struggled daily to find a solution that would meet industry-wide acceptance. We have negotiated with the Western operators. We have met with Assistant Secretary of Agriculture John Crowell on several occasions. And the Association officers have spent innumerable hours on long distance conference calls.

The results of a July 16 written poll of the members of our executive committee indicated their support for relief legislation provided that it include a cap on Forest Service sales in Region Six plus other safeguards. The cap we propose is 4.1 billion board feet annually in Fiscal Years 1983 & '84. Also, we would approve an escape clause providing that if the Secretary of Agriculture determines that the demand for forest products increases, as indicated by housing starts, on an annualized basis to reach or exceed 1.6 million units for three consecutive months, the Secretary shall revert to a normal sales program.

Additionally we can support no legislation allowing greater than 40% termination of a federal timber contract. Wholesale termination would grant sanctuary to speculators and encourage such operations at the expense of legitimate timber interests. It was no doubt speculation, to some large extent, which bid up the price of Western timber to such dizzying heights in the late 1970's.

Termination and caps notwithstanding, we feel that the most acceptable and least controversial manner in which to solve the timber sales crises is addressed in S. 2818, by Senator McClure. This bill would authorize the Secretaries of Agriculture and Interior to adjust the termination dates of any contract entered into before January 1, 1982 for up to five years without penalty.

Such a contract term adjustment would provide time and allow for markets to return to more reasonable levels. It would allow operators to mix new and old sales thereby allowing them an opportunity to achieve a realistic price structure without complete reliance on timber that can't be manufactured and sold at a profit in today's depressed market. Contract term adjustment would also require some accountability from those who bid and thereby bound themselves, a better lesson than that which would be taught by wholesale termination. Contract term adjustments would also delay but not reduce greatly the large sums due the federal government for the Forest Service sales.

Forest Service statistics indicate that unless a cap is imposed on Region Six sales, the problem we are here to address today will not be solved but further aggravated. In 1981, the volume of National Forest timber under contract but not harvested exceeded 32 billion board feet, of which more than 16 billion feet -- or about one-half -- was in Region Six. The total estimated for 1982 is over 33 billion feet.

Just why is this unharvested backlog is so huge is evident from other figures for Region Six. In 1979, slightly more than five billion board feet were sold in the region and about four and one-half billion feet were harvested. But, thereafter, the divergency grows. For 1980, the totals were slightly more than five billion feet in sales and three and a half billion feet in harvests. In 1981,there were five and a half billion feet in sales and only three billion feet in harvests. In 1982, the gap is believed to be even wider.

From such statistics, it's obvious that without a cap on Region Six sales and maximum of 40% termination, as we propose, the volume of sold but unharvested National Forest timber will continue to accumulate in a manner not unlike the growth of the Federal deficit. And since, the Forest Service is seeking five point four billion feet of Region Six sales for 1983 and 5.8 billion feet in 1984, the danger of a market glut from the termination of harvested sales grows appreciably.

In addition to our insistence on a cap and 40% maximum on terminations which would eliminate the danger of a market glut in a period of low demand, we are also extremely concerned about proposals that purchasers' credits for road building and other work in connection with National Forest timber sales be allowed to be shifted from one National Forest Region to another. We fear that could open a can of worms. For example, an operator with contracts in Region Six but who also has operations in the South, might be able to shift his credit from the West to a National Forest in Region Eight and get his Southern timber, in effect, without further investment.

We would prefer that transfer of credits be limited to the region and National Forest of origin and to sales made prior to January 1, 1982.

We also believe that any relief legislation should provide some mechanism whereby terminated and/or defaulted timber is returned to the market in an orderly fashion and in amounts that will not increase the levels of the existing sales program in a depressed market. While we will support up to 40% terminations if proper safeguards are included in the legislation, we also are convinced that some performance on the part of the operator should be required on his remaining contracts.

Since Representative Weaver's bill does not contain a Region Six sales cap or other safeguards we have proposed, we cannot support the bill in its present form. We have also noted that the language of the bill provides for price modifications. While we have rescinded our original opposition to terminations, we remained unalterably opposed to price rollbacks because of the loss of money that would involve for the Federal government at a time when fiscal responsibility is all important, and because it would be unfair to other lumber producers not benefitting from the rollbacks. Moreover, there are disparities in sales contracts between Forest Service regions which should be addressed by the legislation. Southern operators bid under a "transaction evidence" appraisal system that does not respond favorably in falling markets. The more responsive "residual value" system used in the West has resulted in lower timber prices in the West than those other producters must pay in the South.

I sincerely hope these problems can be worked out in the course of developing the legislation in a way that will create genuine consensus within the Congress, the Administration and the industry as to what will best serve the public interest in this urgent matter.

STATEMENT OF
G. ROBIN SWIFT, JR.
PRESIDENT OF THE
SWIFT LUMBER COMPANY
BEFORE THE
SUBCOMMITTEE ON FORESTS, FAMILY FARMS AND ENERGY
OF THE
HOUSE AGRICULTURE COMMITTEE
UNITED STATES HOUSE OF REPRESENTATIVES
ON
TIMBER SALE CONTRACT MODIFICATION
AUGUST 18, 1982

Mr. Chairman and Members of the Subcommittee:

My name is Robin Swift, Jr. I am President of a family owned independent lumber operation in Atmore, Alabama. My company employs about 100 people and is probably typical of hundreds of other independent Southern lumber manufacturers.

In its 60 years of existence, my company has never bought a National Forest sale. We own very little fee land, so nearly all of our raw materials are purchased from individuals, corporations, and state governments, whose sales to us are short term, paid for in cash, and non-terminable. So, obviously, we don't have a direct axe to grind on the issue which is the subject of these hearings.

What we do have is a stake in the marketplace which, at this particular point in history, is severely depressed and which has forced hundreds of Southern sawmills to close down or curtail their operations. While I respect Senator Hatfield's efforts to resolve the dilemma facing a large and important segment of the nation's lumber industry, I am also concerned with the possible adverse effects of this legislation on my own company and region.

H.R. 6913 would authorize modifications in existing federal timber contracts through (1) terminations, (2) extensions, and (3) modifications of purchase price. I would like to comment on these in reverse order.

First -- price modifications or rollbacks -- I am totally opposed to this provision. It makes a mockery of the entire bid system. It offers price breaks and competitive advantages to federal timber contract holders that are not available to the rest of us. It dips into the Treasury at a time when a major effort is being made to balance the budget.

Second -- extensions -- I have no great objection to extensions of inoperable contracts _if_ some provision is made in the legislation to assure that Forest Service sales policy is changed so as not to cause great harm to those of us who operate on private timber. I will expand on this in the next section of my testimony.

Third -- terminations -- This is the one that causes most of us the most trouble. I am opposed to terminations as a matter of principle. A contract is a contract and those of us who do not buy government timber will not be afforded the luxury of terminations of any high priced private contracts which we hold. However, since this Subcommittee and the Congress as a whole may pass a termination provision, I would like to offer a few comments on how the marketing of this terminated timber and Forest Service timber in general effects my operation.

To put the problem in perspective, let's consider what has been going on in Forest Service Region 6, which includes Washington and Oregon. In the 1975-1979 period, which were strong years for home-building, an average of 4.2 billion feet of timber per year were harvested in Region 6. In the years 1980-1981, the average was only 3.4 billion feet. Forest Service sales, in the meanwhile, have been running at much higher annual rates -- the 1981 sales program totaled 5.5 billion feet. As a result, the volume of sold but uncut inventory in that region rose from 12.3 billion feet in 1975 to 16.3 billion feet in 1981. Now it's estimated that the total could go higher than 18 billion feet by the end of Fiscal Year 1982, as the result of selling more than is cut.

If you approve a bill to allow a large portion of this uncut inventory to be terminated, then you have solved the inventory problem. Meanwhile, however, the Forest Service is continuing with a plan to put 5.4 billion feet on the market in Fiscal Year 1983 in Region 6 -- irrespective of the fact that only about a 3.5 billion foot market exists. This not only recreates the uncut inventory problem, but forcing 5 1/2 billion feet on a 3 1/2 billion foot market can only result in dramatically lower prices for federal timber. In fact, it has already happened in Region 6. Bid prices have dropped from an average of almost $307 per thousand feet in calendar year 1980 to just over $62 per thousand in July, 1982. This kind of price drop in one area of the country where timber is owned largely by the government and where government sales dominate the market can only result in a tremendous competitive disadvantage to those of us who operate on private timber in areas where government sales do not dominate. These government sales become a subsidy to my competitors.

I have singled out Region 6 only because of the magnitude of the problem there, where about half of the sold but uncut National Forest inventory exists. Other Forest Service regions may have similar problems which, when considered nationwide, underscore the peril to the economy as a whole from the continued sale of timber in volumes far in excess of the ability of a static and depressed market to absorb.

In considering this termination legislation, I would hope that you will not only take into account the marketing of that timber that you allow to be terminated, but also the Forest Service sales program in general. Forest Service timber should not dominate the market nationwide. It should certainly represent a share of that market and surely there should be enough flexibility in the sales program to allow for high volumes in good housing years and lower volumes when the market is bad.

The kind of threat posed here for independent lumber companies in the South that run on private timber is really no different from the intolerable situation that has already been created by the massive invasion of U.S. markets by government subsidized Canadian lumber.

The Southern Pine producing region is a long way from Canada. Yet, two years ago, almost 60 percent of the lumber consumed in Georgia and Florida came from Canada. The ratios were 40 percent in Virginia, 39 percent in North Carolina, and 37 percent in Tennessee.

Since then, the flooding of our home markets by Canadian lumber made from cheap government stumpage has continued unabated. What it means is that we have been getting an even smaller share of a declining lumber market. If, on top of that, we should be faced in the South with the additional threat of lumber from other parts of the United States made from federal timber, whose low prices are in effect subsidized, I don't see how very many companies like mine can survive.

Mr. Chairman, we have already done everything we know how to do in our own company to insure our survival. What we don't need now is government action that makes that survival less likely.

Thank you for the opportunity to testify.

STATEMENT OF M. J. KUEHNE, EXECUTIVE VICE PRESIDENT,
NORTHWEST INDEPENDENT FOREST MANUFACTURERS
REGARDING FEDERAL TIMBER SALE CONTRACT RELIEF
BEFORE: SENATE COMMITTEE ON ENERGY & NATURAL RESOURCES - SUBCOMMITTEE ON
PUBLIC LANDS & RESERVED WATER
August 16 & 17, 1982
HOUSE COMMITTEE ON AGRICULTURAL - SUBCOMMITTEE ON
FORESTS, FAMILY FARMS AND ENERGY
August 18, 1972
Washington, D. C.

Mr. Chairman and members of the Subcommittee:

I am M. J. Kuehne, Executive Vice President of Northwest Independent Forest Manufacturers. NIFM is a forest products association with 30 members in Washington State who operate approximately 40 sawmills, plywood plants, veneer plants and shake and shingle mills. Our members manufacture building materials primarily from national forests and state-owned timber for sale primarily in the U. S. market. We represent the majority of such manufacturers in the small and medium sized class that are independently owned, that is, they are owned primarily by the people who manage and run the mills. Nearly all are classed as small business, having less than 500 employees.

At the outset, let me say we very much appreciate this opportunity to acquaint members of Congress and particularly the members of this subcommittee with the devastating problems we face in attempting to operate Federal Timber Sales. I will describe how we got in this unprecedented disaster and suggest what may be done so that some independent mills can survive!

"The decade of the 80's will be the golden age of single-family housing . . . as the baby boom of post World War II outgrows condos and apartments, the U. S. will average over 2 million housing starts a year in the decade of the 80's . . . The demographics of the population are such that the 80's will see the highest level of housing starts in our history!" These were the forecasts of business and government economists that rang loud and clear in 1978 and 1979. During this same period, study after study predicted declining availability of timber in the Northwest. The Tri-state Commission, the State of Oregon, the State of Washington and the U. S. Forest Service all agreed, timber supplies would decline 10% to as much as one-third over harvest levels in the 70's.

Predicted higher demand for wood products and reduced timber supply resulted in bids on cutting rights for national forest timber doubling, rising from $200. per thousand board feet in late 1977 to $400. in early 1980. This was the most rapid increase in the 75-year history of selling timber from the national forest lands.

As everybody in the country, save possibly a couple of hermits, is aware, the economic forecasts of the late 70's were off 180°. High interest, driven by record shattering federal budget deficits, threw the housing industry into the worst depression since the 30's. Lumber prices plummeted to nearly half the levels of late 1979. Virtually every sawmill, plywood plant, shake mill in the northwest experienced some level of closures. The economy of the Northwest, where forest products employment is the largest industrial employer, was driven to the highest level of unemployment since the great depression of the 1930's.

Virtually every mill that is dependent upon federal or state timber for its raw material supply has suffered significant financial losses over the last 2½ years. Many have lost the profits of a decade or more. Labor has suffered seriously with many millworkers and loggers losing their jobs; others working reduced hours; and normal wage increases deferred, eliminated or wage rate reductions suffered. Even banks have adjusted loans to accomodate these difficult times. Many small and medium-sized mills struggling to survive have harvested timber on the 3 to 5 year sales purchased in 1978, 1979 and 1980 and sustained enormous losses. They have reached a point, however, where there is no way they can continue to operate these sales without driving themselves out of existence.

Last month, the U. S. Forest Service - Regional Office, completed an analysis of Oregon and Washington timber sales which showed 82% of the 12 billion board feet under contract in western Washington and Oregon to be uneconomical to harvest even in the best forseeable market and 39% of the timber on the eastside to be in the same condition. The Forest Service projected that one-third of the timber on the westside of Washington and Oregon is $200. or more per thousand board feet above the break-even point. To operate this timber, companies would suffer losses in excess of a billion dollars which is another way of saying there is no way financially these timber sales can be operated.

In 1936, the last time we faced this kind of depression, Congress passed a bill which allowed for the termination of timber sale contracts on federal land. It is absolutely essential Congress do so again.

The Washington State legislature in March passed legislation allowing for a termination of state timber sale contracts and providing for an extension of others. The July 14 draft legislation referred to by previous witnesses is very similar. We strongly support prompt passage of this legislation. If this legislation is not passed promptly about 100 million board feet of the timber under contract that was blown down by the Lincoln Day storm in 1979 and other winter storms in 1978, 1979 and 1980 will have so badly deteriorated it will be unsalvageable. This timber was sold at high market prices of 1979 and 1980, at three to four times its value today and it can not be harvested at those prices. The sales must be immediately terminated, resold at current prices and timber removed in the next 12 to 18 months or it will simply be lost and lawyers will fight over the values that once existed.

The question is not whether the federal government will receive the prices bid for these timber sales or forego that revenue for the lower prices the timber resells for today. The question is should legislation be passed to deal with the problem by allowing some of the timber to be terminated and extending the remainder;

or should the chaos of uncontrolled default of hundreds of sale contracts, and dozens of lawsuits which will ensue, determine the fate of mills and dependent communities throughout the northwest. For the schools, the counties and state government which share in the receipts from federal sales, I would say . . . they share in the receipts from the timber that is harvested! Timber at these artificially high values bid in the late 70's and early 80's, will not be harvested! Mills will not operate! Loggers and store clerks and equipment suppliers . . . and the economy of the northwest will not recover! Only if timber is available at a price that mills can come close to breaking even will timber be harvested and that can not happen if contract termination legislation is not passed.

Congress should pass a Federal Timber Sale Contract Relief bill for the good of the country so that a viable, independent forest industry of small, medium-sized and large companies can survive to respond when the housing market does return.

STATEMENT REGARDING RELIEF FROM FEDERAL TIMBER SALE CONTRACTS

S. 2805, S. 2818, HR 6913, ETC.

BEFORE SUBCOMMITTEE ON PUBLIC LANDS OF THE SENATE ENERGY AND NATURAL RESOURCES COMMITTEE

August 16 and 17, 1982

and

BEFORE SUBCOMMITTEE ON FORESTS OF HOUSE AGRICULTURE COMMITTEE

August 18, 1982

Washington, D. C.

By James D. Manke, General Manager
Manke Lumber Company
1717 Marine View Drive
Tacoma, WA 98422

Mr. Chairman and members of the subcommittee:

I am James D. Manke, General Manager of Manke Lumber Company, Tacoma, Washington. Our company was founded in 1950 when we began with a small portable sawmill. In 1965 we built the Tacoma sawmill and in 1979 completed renovation of a new mill in Sumner, Washington. Our company grew from less than a dozen employees in the 1950's and early 60's to 367 in 1979. My brothers, Chuck, Virgil and I built Manke Lumber Company into the fifty-third largest lumber producer in the U. S. in 1979. We manufacture lumber, from both private lands and national forest timber sales. The vast majority of the lumber we have manufactured was sold in the U. S.

We believe we have grown in the lumber business because we are efficient, aggressive and hard working independent businessmen. We survived through the decade of the 70's when many less innovative and efficient mills in the northwest failed. The problems we face today, however, are so massive that virtually all companies who purchase federal timber, survival is threatened. In September, 1979, the average price that we sold lumber for from our operations was $308. per thousand board feet. Over the past three years that price has dropped dramatically to approximatoly $200. per thousand board feet in November of 1981 and dropped even further to $180. last month. At the same time, the timber we are trying to manufacture into lumber was purchased on contracts at the high point of the market in 1979, 1980 and early 1981.

It is virtually impossible to harvest the timber on these sales and survive as a company. Even sales purchased in the spring of 1982 must today be operated at a loss as lumber prices have fallen faster than timber bid prices.

We do plan to log four timber sales totalling 5 million board feet where our average loss will be approximately $90. per thousand board feet for a loss of nearly $500,000. This timber is on the Bonanza, Fifth Standard, Vest Pocket and Viola Creek timber sales. There is another 150 million board feet that we can not afford to log on todays market or any market that can reasonably be forecast in the next several years. The losses we would sustain in attempting to meet these contracts would simply drive us out of business.

Let me explain, we are not attempting here to seek legislation that insulates us from losses. We have sustained very significant losses in the last several years. In our fiscal year which runs from May 1 to April 30th, in 1980 we lost as much money in the last half of the year as we made in the first half. In 1981, we sustained a $5 million loss and in 1982 a $6 million loss.

Our employees have also made significant sacrifices. We have had to lay off 100 employees and many others have worked reduced hours. Wages for hourly employees have not increased since June, 1981. Salaried employees have not received a wage increase in over two years.

What we are asking for is legislation not just to help companies like us, but to avoid chaos that will occur when dozens of companies such as ourselves are forced to default on hundreds of timber sales and the repercussions that will cause . . . the financial institutions who we owe money . . . those who bond us . . . the legal chaos in which timber management programs on national forest lands will be thrown . . . and the economy of communities that are dependent on our mill and others that will suffer.

I would also like to explain the urgency for passage of this legislation. The McClure bill, S. 2818, simply extends timber sale contracts into the future. We have several contracts, however, where extension will be of no value. The Silver BDS Timber Sale is timber blown down in the 1979 Lincoln Day storm. It contains approximately 5 million board feet of Hemlock timber. We estimate our losses in attempting to operate this sale would be approximately $250. per thousand board feet on todays market. If the timber on this sale is not harvested in the next twelve to eighteen months, it will have decayed to such a degree that most of the timber will be unsalvageable. Yet, I can tell you, we can not operate that timber sale. The only way that timber will be harvested is if legislation is passed allowing that sale to be terminated, re-offered at todays prices on a short-term contract that will require its removal within the next year. We also have a timber sale on which we intended to build the road and have decked the right-of-way logs. This sale was purchased in the spring of 1980 at prices where the losses today, if we removed the right-of-way decks, would be in excess of $300. per thousand board feet. We simply can not afford to remove those right-of-way decks. Again, this timber will deteriorate if it is not terminated, sold at todays prices and removed within the next year.

Legislation must be passed this fall to allow for termination of this deteriorating timber, not just on our sales but on the scores of sales which it is my understanding, total nearly 100 million board feet in Oregon and Washington. This is timber that has been bid at prices that can not be logged and that will deteriorate if not logged within the next year and a half. Also, by postponing action on legislation dealing with green timber, it becomes difficult if not impossible to make realistic business plans with the continued uncertainty that would hang over our heads.

We strongly urge your passage of legislation allowing for termination and extension of federal timber sales. Manke Lumber Company supports the July 14th compromise industry draft legislation!

STATEMENT BY JAMES BIBLER, VICE PRESIDENT AND GENERAL MANAGER BIBLER LUMBER COMPANY, RUSSELLVILLE, ARKANSAS BEFORE THE SUBCOMMITTEE ON FORESTS, FAMILY FARMS AND ENERGY OF THE COMMITTEE ON AGRICULTURE UNITED STATES HOUSE OF REPRESENTATIVES

I am James Bibler, vice-president and general manager of Bibler Lumber Company in Russellville, Arkansas. My firm produces some 40 million board feet of Southern Pine lumber a year, and about half of our raw material comes from the National Forests. As a buyer of Forest Service timber, I can sympathize with the plight of the Western producers and with Senator Hatfield's efforts to solve their problem.

Of course, the collapse of home building has adversely affected all lumber-producing regions. Southern producers, like myself, are going through the worst recession that our industry has faced in fifty years. Many Southern sawmills are closed down or have greatly curtailed their operations. And if the contractual problems of the Western producers should be resolved in a way that would be detrimental to the South, very few of us will survive. That is my concern with the proposed relief legislation which is the subject of this hearing.

I realize that Senator Hatfield's bill has been written in broad general terms with the idea that testimony by affected parties will provide the vehicle for developing the specifics. That is all well and good. But as the legislation develops, great care should be taken in framing the language to head off any haphazard dumping of Federal timber at rock bottom prices on a barren market.

There are some 16 billion board feet of National Forest timber sold but unharvested in Forest Service Region Six. If a substantial portion of this timber should be defaulted or terminated and if it should be returned to the market in an indiscriminate fashion, the effect on Southern lumber producers--most of whom buy their timber from private sources--would be absolutely disastrous.

The volume of sold but uncut National Forest timber in Region Six has escalated because sales have consistently and substantially exceeded harvests in recent years. It seems obvious that to avoid a market glut, should terminations be made legal, there must be some sort of cap or other mechanism which would assure an orderly return of terminated or defaulted sales to the marketplace. And that should be written into the legislation. To say the least, it would be imprudent to increase Forest Service timber sales beyond exisitng levels in a depressesd market.

My concern about the prospect of chaos in the marketplace is further enhanced by the fact that the legislation, in its present form, provides for price modifications or rollbacks. Not only would that cost the Federal government money that it can ill afford to lose, but would also be extremely unfair to those lumber producers who are not among the beneficiaries.

As a buyer of National Forest timber, I have been long impressed and dismayed by the inequities in appraisal methods among the various Forest Service regions. In the Southern Region--Region Eight--the Forest Service uses a transaction evidence method which works to our detriment at times of recesssion, such as we are suffering now. In contrast, the residual value method utilized in the West has resulted in lower timber prices for producers in that region than we are paying in the South. I think that from both standpoints of fairness and legality, equity should be restored and that it should be written into the legislation.

In conclusion, I would like to make it absolutely crystal clear that I bear no malice to the Western producers. I know how great their problems are and wish them the best of luck in finding some workable solution. I am also a strong believer in industry unity which is essential to the easing of crises now facing both regions--West and South. If the legislation can be drafted in a form that will give contractual relief to the West, and which will also preclude indiscriminate dumping of timber and dislocation of regional markets while creating equity among Forest Service regions, then I am all for it.

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TIMBER CONTRACT RELIEF ACT

WEDNESDAY, AUGUST 18, 1982

House of Representatives,
Committee on Agriculture,
Subcommittee on Forests, Family Farms, and Energy,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:10 a.m., in room 1302, Longworth House Office Building, Hon. Jim Weaver (chairman of the subcommittee) presiding.

Present: Representatives Bedell, Marlenee, Skeen, Morrison, and Chappie.

Staff present: Robert M. Bor, chief counsel; Robert T. Lowerre, associate counsel; John E. Hogan, minority counsel; Peggy L. Pecore, clerk; Nick Ashmore, Bernard Brenner, Richard Fritz, Gregory Skillman, and Kevin Kirchner.

OPENING REMARKS OF HON. JIM WEAVER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OREGON

Mr. **Weaver**. The Forest, Family Farms, and Energy Subcommittee of the Committee on Agriculture will be in session.

We meet today to hold a hearing on H.R. 6913 and the related bills to provide for the orderly termination, extension, or modification of certain contracts for the sale of Federal timber and for other purposes.

H.R. 6913 is the House version of the bill authored by Senator Hatfield which I introduced so that we could hold these hearings in the House on Senator Hatfield's proposal.

I want to commend Senator Hatfield for his leadership on this issue. I think he has done an outstanding job trying to make the best of a very bad situation.

I would like to begin this hearing by reading a letter I received just yesterday, unsolicited. I do not know the man who wrote it. It just came into my office, but I read it late last night. It is from Max Kimmell who lives south of Roseburg.

It says,

> Dear Congressman Weaver, I have closely followed your efforts to help us here in Douglas County. Please move on the timber legislation now.
>
> I work in the office at Roseburg Lumber Company. The depression going on here hasn't hurt us much yet. We have had a salary rollback and a freeze, but I've still got a job.
>
> Congressman, I'd like you to join me on our front steps and look around our neighborhood for a moment. We live in the Green district, 5 miles south of Roseburg. Most of the housing is fairly new. It's a nice middle-class area. About 20 percent of the houses are for sale either on or off the market.

John, my neighbor across the street, is a laid-off mill electrician. His wife and family left him last Saturday. He has been unemployed 1 year and increasingly took out his problems on his family. Bill, two doors down, was a jitney driver at Roseburg Lumber's plant No. two. After being unemployed about a year, he joined the Army. He's 28, and he has three kids.

Our friend up the street, Lee, was the assistant manager of a local wine and beer distributor. The distribution center was closed. He's now got a temporary job setting chokers for a gippo logger to keep from losing his house. He has sat behind a desk for 10 years. He has no business trying to do that kind of work.

Down the street on the other side is Dean. He's a spreader man at Roseburg Lumber. Since he has worked about half the time the last 2 years, he's still hanging on. His 5-year old son and mine are friends. The boy said he wasn't going to be able to go to the county fair this year. I called his dad and asked if he couldn't come with us. I thought the man was going to break down on the phone.

How do you like my neighborhood? You can find it all over southwestern Oregon. Sir, this situation is a disaster. The proposed legislation is not a business bailout. It's a disaster relief to a county that has been hit as severely as if it had suffered an earthquake. Please help us. Sincerely, Max Kimmell.

I don't think anything need to be added to that letter.

We are pleased to have with us several of our distinguished colleagues from the Northwest, and I look forward to their testimony.

I call on the Honorable Don Bonker, a Member of Congress from Washington; and the Honorable Norman Dicks, also from the State of Washington.

Don, won't you proceed, please?

STATEMENT OF HON. DON BONKER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WASHINGTON

Mr. **Bonker**. I thank you, Mr. Chairman. Let me at the outset commend you for the introduction of the bill that is the subject of these hearings. You and I have comparable districts in that we traditionally have districts that are timber based and reflect a traditional dependence on logging and the wood products industry to keep our economy going.

I think you have fully recognized, as I, Norm Dicks, Senator Hatfield, and others have, the unusual set of circumstances which have placed our industries in jeopardy.

I have also introduced legislation that is not unlike the chairman's H.R. 6996 which contains similar provisions and differs only in the respect that it provides for an industry task force that would advise the Secretaries, recognizing that there are differing viewpoints among the various industries as to how we should approach this problem, and also has a reporting requirement so that we in Congress are kept apprised of the developments.

I think what we appreciate, Mr. Chairman, is that at stake are our traditional small and independent businesses in timber producing States who will be sacrificed if Congress does not act now on this legislation.

You have heard testimony yesterday and again today giving light as to the dire state of the industry, the fact that we have at least 10,000 possibly many more, thousand workers unemployed with well over 20,000 who are working curtailed hours. Nearly 100 mills have closed and many are operating at less than full-time capacity.

Beyond that if Congress does not act, the Government will lose revenue. Business will continue to be in a serious decline in the Northwest. The cure, which has been advanced by you, Mr. Chairman, will not result in lost revenue to the Federal Government. I think what it will do is prevent financial collapse of the industry which would indeed represent a loss of revenue to the Federal Government.

During the last decade, it is fairly clear that as domestic housing starts were reaching a peak, and at the same time log exports were reaching high levels, the stumpage price over that period had become somewhat inflated. It may at the time have reflected the current marketing conditions.

However, given the present recession, our industry finds itself holding these contracts with highly inflated stumpage price at a time when there is no domestic nor international demand.

So, we are going to face a very difficult situation if Congress does not act to relieve the industry of these contracts.

At the same time we are experiencing growing competition from Canada. I use the word competition in the context that we recognize that industry as somewhat subsidized by Government ownership and control of stumpage prices. Where Canada in 1975 provided 17 percent of our domestic lumber needs, today it's well over 30 percent. I have been working with representatives of the industry to use the procedure that is in place known as countervailing so that we can protect our domestic industries from subsidized imports.

Mr. Chairman, the simple extension of contracts is not the answer. Delaying default or severe economic hardship will not serve the needs of the industry or the Nation, and it certainly will not put bread on the table of thousands of unemployed loggers, truckers, and other forest products industry workers.

In conclusion I would like to add that this is not a bailout. It will be characterized perhaps by OMB and critics of the legislation that it is a bailout. I think when all is said and done, it is fairly clear that the Government faces one of two options. We can either hold the industry to the contracts that were negotiated a few years ago which possibly will bring about the bankruptcy and failure of those business, which in effect will be an automatic default; or the Government could find some means of adjusting those contracts and providing for an extension in some cases. This is so they could live with the current economic reality that exists.

I think the latter course is advisable because it would keep an industry intact for a little bit longer until we reach a point of recovery without throwing them into failures and bankruptcies which would precipitate the demise of the traditional timber based economy of the Northwest.

Mr. Chairman, it should also be noted for the committee record and the members of this particular subcommittee that the State of Washington in the last legislative session took similar action on State lands. This is simply because it reflected the current economic realities of the area, and it provided similar relief to the industry which has been extremely helpful. I think the State understands and appreciates the fact that there's not going to be a net revenue loss, but it is merely a step to cope with current realities and prevent the possible foreclosure of many of the contracts that exist in the State of Washington.

I think we should follow the lead of the State of Washington, and hopefully this subcommittee will act expeditiously, and the Congress will act favorably on the legislation that is before the subcommittee.

Mr. **WEAVER**. Thank you very much, Don, for an excellent statement. I want to commend you for your leadership here. You have done everything you possibly could, and I know you are going to do much more.

Norman.

STATEMENT OF HON. NORMAN D. DICKS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WASHINGTON

Mr. **DICKS**. Mr. Chairman, I appreciate the opportunity today to appear with my good friend and colleague from Washington, Congressman Bonker, to testify in favor of legislation which will provide much needed relief to the forest products industry and those it employs.

Like my colleagues, I am very concerned about the numerous bankruptcies in the forest products industry, the high levels of unemployment in this sector of the Pacific Northwest's economy, and the reduced flow of income from Federal forest lands to the U.S. Treasury and to units of local government.

As most of us know, high interest rates have thrown the housing industry into the worst depression since the 1930's. As a result, lumber prices have plummeted to levels half as high as they were in 1979. Saw mills, plywood plants, and shake mills in the Northwest have experienced repeated and lengthy closures.

In addition, the economy of the area where the forest products industry is the largest industrial employer has been rocked by the highest levels of unemployment since the Great Depression of the 1930's.

This situation is cruel to workers and their families; devastating to small, family-owned mills; and bad for Federal fiscal policy, especially since the cost of unemployment in the region increases the Federal deficit.

In 1936, the Congress and the industry faced a similar depression in the forest products industry. Then Congress responded by passing legislation that allowed for termination of certain timber sales contracts on Federal lands.

At this time, I believe Congress should again consider this alternative and other timber contract relief measures.

The issue is not whether the Federal Government will receive the prices bid for current timber sales or whether it will forego that revenue for the lower prices the timber would resell for today.

The real question is: should legislation be passed to deal with a problem experienced by an industry which employs hundreds of thousands of workers and which has been devastated by high interest rates?

In my view the answer is a resounding yes. It is a fact that timber at current prices will not be harvested, and more mills will shut down. If this occurs, loggers, equipment operators, and suppliers will remain unemployed, and the economy of the area will continue to suffer from these revenue losses.

Only if timber is available at a price that allows mills to come close to breaking even will timber be harvested. Then and only then will workers be rehired and the drain on the Federal Treasury due to unemployment benefits and food stamps be reduced.

However, to accomplish this, legislation solving these problems must be enacted. Currently, several bills which have been introduced in the House and the Senate propose solutions to this very important problem. One of these measures was introduced by myself and Congressman Bonker, Congressman Swift, Congressman Clausen, and Congressman Young yesterday. As the chairman knows, this measure is very similar to the bill which he and Congressman AuCoin introduced earlier this month.

Like the chairman's bill, our bill requires the Secretaries of Interior and Agriculture to terminate or modify timber contracts upon a showing of economic hardship by the private contracting parties. However, it also states that a timber contract relief task force composed of representatives from all segments of the forest products industry will be created to advise the Secretaries concerning the modifications of timber contracts bid prior to January 1, 1982.

Mr. Chairman, legislation is urgently needed to help solve the serious employment and economic problems confronting the forest products industry. I know that you, the subcommittee, and many of our colleagues in the Senate are committed to resolving these problems. I also hope that we can count on the support of the administration—although I understand that yesterday it testified in opposition to this kind of legislation. I guess this is not surprising considering the fact that they have not done very much to help the Pacific Northwest over the last year or so.

Regardless of that lack of support, I look forward to working with this subcommittee to providing relief to the forest products industry.

Again, thank you for allowing me to testify on this issue. I appreciate your consideration and support and your leadership. Mr. Chairman, I think it is a time for extraordinary action, and I am convinced that this committee is prepared to make that kind of important action.

Mr. WEAVER. Thank you for a very bold statement. I appreciate it, Norman. It was very good and very helpful.

I now call on our colleague from California, the Honorable Norman Shumway.

STATEMENT OF HON. NORMAN D. SHUMWAY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. SHUMWAY. Thank you, Mr. Chairman. I appreciate the opportunity of being here, and I think the number of members present indicates the degree of interest and concern about this issue in Congress.

I am not here to necessarily suggest the solution to the problem, but I would like to commend this subcommittee for holding these hearings so that we can hear from experts, and the members of the subcommittee can address the needs of the timber industry throughout America.

In my district of northeastern California, we have a particular crisis which I'm sure is repeated elsewhere throughout the Northwest. The slump in the forest products market has contributed to a dramatic reduction in terms of timber resource production. Unemployment is high. It ranges from almost 30 percent in Sierra County to almost 17 percent in Amador County. All of the counties are very deeply dedicated to the timber industry.

It seems to me, Mr. Chairman, that the real long-range solution to these problems is for Congress to pursue measures that will stimulate the economy as a whole. We have to make an overall economic recovery to put people back to work. Until that has happened, the timber industry obviously will continue to suffer. I think that is why the subject of today's hearings, the matter of timber purchasing contracts, is very timely.

The contracts that were signed in 1980 and 1981 are now coming due at a time when the lumber demand and prices have dropped drastically. Therefore, I am urging the subcommittee to give its prompt consideration to all of the proposals of bills that were introduced for contract relief, especially insofar as they may not have an adverse budgetary impact.

I liked, for example, the bill that was introduced by Senators Hatfield and McClure, but I recognize that it did have some substantial cost implications to the Federal Government.

However, it seems to me, Mr. Chairman, that it has not been satisfactorily determined that extension and termination of timber contracts would be more expensive than losses that are anticipated to be incurred by the U.S. Treasury and county governments through contract default and bankruptcies.

The chairman's bill, I think, is a commendable bill. Certainly by extending the expiration date for a portion of all outstanding contracts, Federal and county revenues will be largely preserved intact. Likewise, by terminating the remaining contracts and reselling them at significantly lower prices, we can anticipate an increase in timber activity and employment.

Just this past weekend, I was in California and visited a mill in Quincy that certainly would stand to benefit by this kind of contract relief. This particular mill was closed down because its input costs, including the costs of timber, are so high that the mill simply cannot meet operating expenses. In this case if the costly timber contracts were to be terminated and resold at a lower price, we could expect the mill to open up again and rehire those employees who were recently laid off.

There are a couple of sections, however, in the chairman's bill which I would not agree with and hope the subcommittee will discuss in greater detail. One is that the relief would be granted to those contracts only in cases of economic hardship by the private contracting party. It would seem to me that if relief is going to be given it should be applied industrywide and not to just selected companies.

The overall objective here I would think would be that the competitive positions of one company would not be escalated over another.

Another area of the bill which I think deserves further consideration is the matter of contract price rollbacks. It seems to me that modifying the purchase price for select timber contracts would do an injustice to those companies that have gained a legitimate pricing advantage. There is a mechanism that already exists in the form of stumpage rate adjustments whereby changes in contract prices are mandated to reflect fluctuations in the forest products market.

However, I am pleased, Mr. Chairman, that you have introduced your bill with the intent of providing some form of timber contract relief, and I would just urge in conclusion that the subcommittee continue in its deliberations on this subject and to report out necessary legislation as soon as possible.

Again, thank you, Mr. Chairman, for the opportunity to be here with you today.

Mr. **Weaver**. Thank you very much, Norman. I appreciate your comments on my bill.

Without objection, a copy of your statement will be entered in the record.

[The prepared statement of Mr. Shumway appears at the conclusion of the hearing.]

Mr. **Weaver**. That is the Hatfield bill. I simply introduced it in the House, although I commend Senator Hatfield strongly for his leadership here. He is the one who is taking the lead in the Congress on this. I am not sure he agrees with all of it. It is open for a forum. I personally oppose contract extensions, and I strongly support terminations.

I agree with you also on the hardship provision. I see no reason for that. So your views and mine are very close in this regard.

Mr. **Shumway**. I appreciate that. Thank you.

Mr. **Weaver**. We are also honored to have the Honorable Don Clausen here. Don, won't you proceed, please?

STATEMENT OF HON. DON H. CLAUSEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. **Clausen**. Like my other colleagues, I want to thank this subcommittee for the cooperation that has been extended to me both yesterday and now today, I am certain that this will continue as we look to the future for a solution.

The key issue that we are faced with here today is to remove a strangulation—a literal strangulation—on an industry that has come about as a result of a set of circumstances that was not predictable. They are caught, in my judgment, in an unprecedented bind, unlike anything I have seen in the 20 years that I have been in the Congress.

I ask unanimous consent that I be permitted to put a full statement in the record.

Mr. **Weaver**. Without objection, a copy of your statement will be placed in the record.

[The prepared statement of Mr. Clausen appears at the conclusion of the hearing.]

Mr. **Clausen**. During the course of the hearings yesterday there were a number of things that were brought to my attention, some of which came from testimony that was presented as a result of some of my own constituents coming back here and relating directly what their concerns and what their problems were.

Two of them incorporated into the record the problems and the extent of the problem that they were facing up to and including, one operator facing a potential loss of $72 million. Today I would like to ask unanimous consent as an addendum to my testimony that I be permitted to put another letter from a sawmill that has had a measure of success over the years but is now finding themselves very much in a bind. I would like to have that put in the record as an addendum to my testimony.

Mr. **Weaver**. Without objection, the record will be held open to receive that material.

[Material not available at time of printing.]

Mr. **Clausen**. We are going to have to go beyond just the domestic impact. I think we are going to have to come up with a study of one of our major competitors in the domestic markets, namely the Canadian interests. They have land and timber management policies that are different from the established land and timber management policies here in the United States.

Those policies, however, permit the maximum in benefits to a major competitor. It has been brought to my attention that they have something in the vicinity of a 20-percent advantage because of the difference in the value of the Canadian dollar as contrasted with the United States dollar. They are impacting on a market down here that further causes a depression and a lack of access to the market here by our own domestic producers.

This must be addressed, and I think we need to identify it as we look to an ultimate solution.

Second, and I know that this has been a subject of discussion for quite some time because I serve, as you know, on the Interior Committee, is a point relative to the kind of land and timber management policies that in many ways the Forest Service themselves find themselves bound to. They are bound to a policy that I think has generated some of the problems, and I am referring specifically to the purchaser credit issue.

That would not be an issue if in fact there was not the inhibiting influence as a result of an OMB decision—and this is not just this administration, but previous administrations—that would permit the Forest Service, working in concert with the congressional committees, to move in the direction of establishing a roadbuilding program other than the current arrangement, which has been to utilize the forest development roads and trails and the men who are timber operators themselves who are not in fact roadbuilders. However, this is the only way in which they can get access to the timber itself.

I think as we look to a potential solution to all of these problems, extending beyond the immediate but hopefully to the long range, I think we need to start assessing whether or not it really has been in the interest of good timberland management to have that kind of a program continued.

I know what the problem is and so do you. It is the fact that there has not been enough in the way of a priority consideration for the appropriations necessary to permit the Forest Service to go out and contract and have these roads built to serve the full spectrum of what I describe as the multiple use land management program of the Forest Service. I think the Forest Service is in a bind, and it is simply because the Congresses over the years, as well as the administrations, have not given in my judgment the kind of priority to a positive roadbuilding program that would serve all the uses and permit them to maximize their ability to manage the lands.

However, that is going to be a battle between the various segments that have a desire to have access to budget priorities. That is something that I think we are going to have to address.

I joined a number of my colleagues in introducing legislation designed to alleviate the very serious economic problems facing the forest products industry. The recent decline in the housing market and related industries has had a devastating impact on those companies I have alluded to that are dependent primarily on the public timber.

I believe the Congress can and should provide a legislative solution which will prevent additional closures and bankruptcies on the Pacific North Coast as well as the Pacific Northwest and other timber producing areas. So as has been stated before, I have in fact joined in cosponsoring legislation that seems to represent as close to a concensus among the people of the Northwest and recognizing, I think as all of us do, that the hearing record itself will have to determine the final product.

Again, going back to yesterday's testimony which was very helpful, there is no question but that one of the facts we are going to have to take into account is what this action will do to the assessed value of standing timber on private lands. There is going to be an impact there that needs to be taken into account. I am sure that that has been a matter that will be the subject of some of the testimony that will be presented.

However, our failure to act will only bring economic ruin to the countless more companies, individual operators, and our local communities who depend on receipts from the timber sale program for a substantial portion of their budgets. Without the receipts our counties will be unable to adequately fund their education programs as well as their road programs. I am sure that most of my colleagues would testify to the fact that with the uncertainties of the timber sale program those who are dependent upon the funding in their budget, be it an educational budget or a road budget, relying upon the timber sales receipts and the percentages that are to be extended to those, is having an impact on them.

Mr. Chairman, there are many other points that are incorporated in my testimony, some of which may be redundant to what has already been said. Inasmuch as I will be involved in the legislative markup process with you and Mr. Marlenee in the Interior Committee, I look forward to working with all of you in cooperation with the Senate. I think that Senators Hatfield and McClure are genuinely deserving of a great deal of credit for having taken initiative on the Senate side, and now you on the House side having moved toward holding these hearings.

I would hope that we could expedite the markup process and not have anything linger on because we are running out of time. Believe me, the people out there have run out of patience. It behooves each and every one of us to move in the direction of utilizing the best talents that are available in the subcommittee to come up with the best compromise solution.

Mr. Weaver. Thank you, Don. You make a great deal of sense. I appreciate that.

We have a vote on, but I would like to hear from our distinguished colleague from Washington, Hon. Al Swift, first.

STATEMENT OF HON. AL SWIFT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WASHINGTON

Mr. Swift. Thank you, Mr. Chairman, and I think I can complete that in time to make the vote, and you can complete the work with this panel. I ask unanimous consent to include my statement in the record.

Mr. Weaver. Without objection, a copy of your statement will be included in the record at this time.

[The prepared statement of Mr. Swift follows:]

Prepared Statement of Hon. Al Swift, a Representative in Congress From the State of Washington

Mr. Chairman, I would like to thank you for the speed with which you acted in holding these hearings and for your commitment to seeing that a solution to this problem is found.

I am sure, Mr. Chairman, since you represent a district very similar to mine that you know well the enormous depression the Northwest is facing. Many counties in my district have unemployment twice as high as the national average and in some places as high as three times. This is all a result of the timber-based economies of our region. The economies of entire towns depend on this vital wood commodity.

I recently met with various representatives in the timber industry and as the talk moved around the table, each painted a very grim picture. They told of the layoffs, the shutdowns, and even the mill closures. One particular fellow in management at a fairly large company was faced with losing his own job. No particular portion of the industry remained unscathed. It is time now to make an effort to spur the industry and I feel that the bills being discussed here today can do just that. Mr. Chairman, these bills are vehicles to revitalize this industry. It is not the only acceptable answer but a start to find the solution to the disaster.

Yesterday, the administration, in hearings on the Senate side, voiced their opposition to this bill. It is beyond me to understand how this administration cannot see people in need and recognize that something must be done to help. The Forest Service contracts we are talking about were made in a different economic climate. Times are as bad now as they were during the Great Depression and the entire forest products industry is facing demise if something is not done here today.

Mr. Chairman, I do not want to take up time here as I know you have received many statistics on the state of the industry. I know you have received a great deal of testimony on the need for this testimony. But I would like to offer my support and assistance in any way I can to see that this badly needed legislation is acted upon.

Mr. Swift. Of all people, Mr. Chairman, I do not have to tell you about the depression in the Pacific Northwest caused by the timber industry. Your district is very much like mine in that regard. Many counties in my district have unemployment twice as high as the national average. It goes as high as three times the national average, and that is a direct result of the depression in the timber-based economy.

I met recently with a variety of representatives in the timber industry. As you know, economic trends in the industry do not always hit all aspects of it the same. However, I have talked with loggers; I have talked with standard mill operators, specialty mill operators, plywood mill operators. They painted a uniformly grim picture of layoffs and shutdowns and mill closures.

In the town of Forks, Wash., I picked up a very interesting statistic. I suppose the last thing anyone has cut off is their electricity. Maybe the second to the last thing when times are tough you have cut off is your cable television. However, the third to the last thing, it seems to me, would be your telephone. The Peninsula Telephone Co.'s connections dropped by 8 percent in 1 year. It seems to me that the more you think about that statistic the more devastating it is.

The other thing that bothers me and another thing that I think should be brought out is that this is not just the only thing affecting the industry. There is only so much that the wood products industry in the Pacific Northwest can stand. They are facing Canadian imports where Canadian stumpage is subsidized. They are facing stumpage prices in this country that are artificially inflated by log exports. They are facing the overall interest rate problem that is affecting many other industries but the wood products industry particularly badly, and on top of that they have this particular problem.

Some kind of relief, if you are not going to destroy the entire industry, is essential, and this seems to be the place to begin.

I would also point out two other things. First of all, when we finally shake out after this economic trauma we are going through, generally I think we are going to find, relatively speaking, fewer small businesses left and proportionately more big businesses. That is going to be particularly true in the wood products industry. This is not that the Weyerhaeusers and the Georgia Pacific's are having a heyday right now, but they will survive these times. It is the small mills, the small operators, the things that really put vitality and life and growth into our small communities in the Pacific Northwest who are going to be the ones who disappear.

I think that is tragic. I think we should do something about that, not that there is anything wrong with big, but there is a lot that is very good about small, and we should work to keep the small mills, the small operators in the small towns in our area.

The second thing is jobs. Joblessness is not free. Unemployment does not come without cost to the Federal Government. We all know the statistics. In round figures for every 1 percent of unemployment, there is a $30 billion drain on the Federal Treasury. So when people say, yes, they think this program is going to cost something, I think that cost should be seen as an investment. If you can get people back to work, you will reap a profit on that investment. I think that whatever costs are connected with this should be seen in that way.

Finally, Mr. Chairman, time is of the essence. If something is not done soon, there will be no point in doing anything at all, because the people who most desperately need the help are not going to be there anymore. That is not hysterical. That is just speaking the facts. These people are working in the area of 60, 90, 120 days that they can survive, and Congress needs to act expeditiously, as I am sure the chairman in particular well knows.

I thank you very much.

Mr. WEAVER. I want to thank you, Al, for an excellent statement. All of you show a profound knowledge of the issue, and I want to thank you very much for your very helpful testimony.

I think we better go vote now.

Mr. **Dicks**. Mr. Chairman, I just want to clarify one point. I said that the administration had not given us much support in the Pacific Northwest. I want to make sure that everyone understands I was not talking about the Forest Service. What I am talking about is the veto of the housing bill, the cuts in the Export-Import Bank, opting for the C5 over the 747, attempting to close our Columbia River fish hatcheries, and failing to fund the enhancement legislation. This is just the last blow for us.

Mr. **Weaver**. Thank you very much. I think we better vote. The subcommittee will be in recess for just a few minutes.

[Recess taken.]

Mr. **Weaver**. Before proceeding with our next witness, I wish to insert into the record the prepared statement of Hon. William C. Wampler, the ranking minority member of the full committee.

Prepared Statement of Hon. William C. Wampler, a Representative in Congress From the State of Virginia

Mr. Chairman, I want to thank you and the ranking minority member of the subcommittee, Mr. Marlenee, for providing a forum for discussion of the issue of timber contract terminations. Problems of depressed timber prices, a reduction in housing starts, and timber bought at a price above economically harvestable levels are a nationwide problem. Timber production and shipments in the South are running at least 30 percent below normal.

The Northwest, and the South, can ill afford massive defaults since such defaults would only dump additional timber on the market and further depress prices.

While some form of adjustment in administration of federal contracts are necessary, it must not come at the expense of those who followed prudent business practices, nor at the expense of any particular region. Also, any broad termination legislation must contain safeguards to assure orderly marketing of federal timber placed back on the market through such terminations.

Assistant Secretary Crowell, I understand, has suggested that the Forest Service and the Bureau of Land Management be given authority to amend contract agreements with purchasers who have incurred damages by reason of default. I believe this authority should be granted and trust that your Subcommittee will work with the Administration to formulate legislation to accomplish this goal.

Of concern to me is the sanctity of contracts. Although it would appear certain "adjustment authority" should perhaps be given the Secretary in this unusual circumstance, the industry must not assume that if future bidding practices continue unabated as in the past that Congress will again step in to provide relief.

To summarize, Mr. Chairman, problems faced by the timber industry are nationwide, and the problem must be approached as such. We must work with and coordinate our activities with the Administration. Such cooperation extends beyond this particular bill to a full commitment of economic recovery. Our timber industry cannot flourish until our overall economy is again healthy and the number of housing starts increase—even beyond that which was recently announced.

Mr. **Weaver**. Our next witness is the Honorable John B. Crowell, Assistant Secretary for Natural Resources and Environment, U.S. Department of Agriculture. He is accompanied by Mr. R. Max Peterson, Chief, U.S. Forest Services; Mr. Lynn Engdahl, Special Assistant to the Director, Bureau of Land Management, U.S. Department of the Interior.

STATEMENT OF JOHN B. CROWELL, ASSISTANT SECRETARY FOR NATURAL RESOURCES AND ENVIRONMENT, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY R. MAX PETERSON, CHIEF, U.S. FOREST SERVICE; LYNN ENGDAHL, SPECIAL ASSISTANT TO THE DIRECTOR, BUREAU OF LAND MANAGEMENT, U.S. DEPARTMENT OF THE INTERIOR; AND CHARLES FROST, BUREAU OF LAND MANAGEMENT, TIMBER DIVISION

Mr. CROWELL. Mr. Chairman, also with us is Mr. Charles Frost of the Bureau of Land Management, Timber Division.

Mr. WEAVER. Welcome. We appreciate your coming.

Mr. CROWELL. It is a pleasure to be here to participate in the deliberations of the subcommittee concerning these legislative proposals. I realize that the purpose primarily here is for exploring the technicalities of this rather complicated issue, and we are prepared of course to spend the bulk of our time in response to questions. However, I thought it might be useful to summarize for the record the administration position which I provided to the Senate committee yesterday afternoon.

Mr. WEAVER. If this is your entire statement in the Senate, if you would like I will just put it in the record, then you can summarize it.

Mr. CROWELL. I would appreciate it.

Mr. WEAVER. Without objection, a copy of your statement will be placed in the record.

[The prepared statement of Mr. Crowell appears at the conclusion of the hearing.]

Mr. CROWELL. The statement begins by briefly describing the timber sale procedures employed by the Forest Service and the Bureau of Land Management. It notes the extent to which sales on the west side of the Cascades of Oregon and Washington and of northern California have been rendered unprofitable to operate by the severe downturn in the housing market of the last several years, attributable to high interest rates.

The statement in its early portion also addresses the causes for high priced sales in western Oregon, western Washington, and northern California as essentially being attributable to three things. The first was, of course, inflation which was unremitting for 18 years. The expectations that inflation created in part led people into bidding high prices for Forest Service and BLM timber sale contracts, particularly the longer term contracts, which I know that you are aware are caused by the necessity for sometimes major road construction jobs.

The expectations for housing demands also led people to believe that there would be ongoing demand for timber in relatively high volumes which were required to meet the average number of housing starts of about 1.8 million which prevailed through the decade of the 1970's.

Last was the expectation that as the timber needs of the country increased with the growing population and with increased housing needs more of the timber from the national forests and from Bureau of Land Management lands would be made available for sale and for harvesting. This did not occur for a variety of reasons during the 1970's, and a combination of these factors led to very high competitive bidding in the regions of the country which are now suffering such pain.

The Forest Service moved in May 1980 to alleviate some of the concerns and some of the distress which were being experienced as the result of the turn down in demand for wood and wood products by granting extension for contracts that were about to expire and which were going to be expiring in the next several years.

The extensions were only for a year and were subject to payment of the purchase price during that year plus some other requirements. By October 1981, 9 months ago, it was apparent that the housing slump was continuing and that the relief which had been earlier afforded under contract extension was not going to be adequate to meet the distress situation that was prevailing.

So after much deliberation the Forest Service again granted extensions, this time for 2 years. Subsequently, the agency received permission from the General Accounting Office to reduce the requirement for payment of purchase price simply to a requirement for payment of interest on the unpaid portion of the purchase price.

At the same time the Bureau of Land Management, which had previously very strongly resisted granting extension of any kind, extended their contracts which might be terminating until the end of 1983 in order to provide some relief from the poor lumber markets and poor plywood markets.

Both agencies also undertook to revise their timber selling procedures, redesigning those procedures so as to prevent, hopefully, a recurrence of the high bidding which had become so evident in the last several years. A number of features were adopted. A portion of the purchase price was called upon for downpayment. There were to be interim payments made during the course of the contract. The amount of the performance bond was increased. And, a discount procedure to encourage early performance of the contract was established.

Both agencies undertook at the beginning of 1982 to make available for sale early in the year certain contracts which it was planning to sell and which acceleration could be given to during the course of fiscal year 1982 and early 1983. These were sales of small volumes and short terms so as to provide some volume which could be purchased hopefully at the much lower stumpage rates prevailing by the beginning of this year. This would keep some of the mills operating on the lower priced stumpage where such sales could be provided.

We believe that that program was successful, and we have been able, Mr. Chairman, to put some timber into the marketplace at much lower prices than the large volumes that are otherwise under contract. That has provided a measure of employment which might not otherwise have been available in the Pacific Northwest.

The further realization is that in order to avoid a recurrence of the high bidding situation we need to make available ample supplies of timber from the Federal timber selling agencies so that there is not a recurrence of the concern over supplies available to the operators who must support very substantial investments represented by their mills.

The statement then went on, Mr. Chairman, to state the administration's position with respect to the specifics of the legislation under consideration. The legislation proposes three remedies that the Secretaries of Interior and Agriculture would be authorized to undertake. One would be to permit contract price rollbacks. A second would be to allow the termination of contracts. A third would be to provide contract terms adjustments, which is something of a term of art. That essentially means free extensions or extensions without conditions, such as payment of interest or payment of part of the purchase price.

The administration's position with respect to this legislation is to be opposed strongly to price rollbacks, to be opposed to contract terminations, and at the present time not to favor contract term adjustments. There is no imminent danger, Mr. Chairman, of a major number of defaults under the BLM contracts in view of the contract extension that was provided last fall by the BLM.

The numbers of contracts that might be terminated or expiring or unoperated under the Forest Service would be small. We do expect that there would be some if there were no free extensions or contract term adjustments made available. However, the requirements at the present time for complying with the Forest Service extension terms are rather modest in the sense that we are asking only for a payment of interest on the unpaid purchase price.

In summary, Mr. Chairman, the administration is opposed to legislation at this time on this subject.

Thank you very much.

Mr. **Weaver**. Thank you very much. I think you have made it clear, but I want to nail it down. You are opposed to all provisions of the Hatfield bill. Is that correct?

Mr. **Crowell**. We strongly oppose the price rollback feature. We oppose the termination provision, and we are not at this time in favor of contract term adjustments.

Mr. **Weaver**. Therefore, you oppose all provisions of the Hatfield bill.

Mr. **Crowell**. At this time.

Mr. **Weaver**. This is about the last time. [Laughter.]

Is this the policy of the Reagan administration?

Mr. **Crowell**. That is the policy of the administration.

Mr. **Weaver**. Of the Reagan administration? We can say that word, can't we? It is not a technical policy of the Forest Service. This is the policy of the full Reagan administration.

Mr. **Crowell**. That is correct.

Mr. **Weaver**. Your policy then is that—and I read from your testimony—"the contracts should be defaulted and that the defaulting purchasers should pay whatever damages may accrue by reason of default." Correct?

Mr. **Crowell**. Correct. Mr. Chairman, I might interject that I did leave out a point in my oral summary of the testimony which is pertinent here, your reference to defaults reminded me of that.

The administration did propose yesterday that new authority be granted to the Secretaries of the Interior and Agriculture for dealing in a discretionary way with defaults so that we would not be pursuing defaulters for damages in a way which would put those who had a capability for remaining in business out of business.

We are proposing that new authority be granted so that the contracts could be entered with defaulting purchasers to allow them time to pay the damages which would accrue from defaults on unoperated contracts.

Mr. **Weaver**. I read that, Mr. Secretary, and I think it is very considerate of you. I want to start out by saying that I do not want to declare war with the U.S. Department of Agriculture, and I do not want to declare war againt the Reagan administration. We need you. We need you badly. You are the Government of the United States, and we are in a desperate shape.

So I want you to understand that whatever I say I am always open and willing to cooperate, work with you in any way that I possibly can because we need your help. We need it desperately.

Mr. **Crowell**. We appreciate that, Mr. Chairman.

Mr. **Weaver**. The door is always open, and I know that you seek to do what you think is best as well. I want you to understand that no door is closed. However, I must say, sir, that this policy that you have enunciated today is a policy of bankruptcy and unemployment. You are killing this bill deader than a downed tree rotting in the forest, and we are going to fight for it. We cannot afford to give up, even if you have.

We want hope, and you are killing that hope. You promise defaults, and we want jobs. We want an industry that is not in default because it is not their fault they are in default, not at all. You mention inefficient producers in your testimony. Out there in that audience and back home there are the best producers in the world, the most efficient mills, the best managed and operated, the finest working force. These are the people who are going under now through no fault of their own.

This administration's main policy is a massive military buildup, $245 billion this year for military equipment at a time when this country is in dire peril. When the defense industries have cost overruns—and believe me they have billions and billions and billions of dollars—do we tell them to stick to their contracts? Those are different kinds of contracts. Those are contracts to build something at a certain price. No, we just vote supplementary appropriations after supplementary appropriations to give them more billions when they go cost overrun.

However, when our timber industry is forced to bid for the very survival of timber and then the market collapses, any two reasonable parties, and I stress reasonable parties, would have modified those contracts. It will not cost the Government a cent. I dispute what you say in your testimony that it will cost the Government money. It will not. We have already agreed that the only way you can get this money is out of the bone marrow of our industry. If they are bankrupt, you will not get that. You will not get the money. There is no loss to the Federal Government. Senator Hatfield has said that this bill he introduced will not make the Federal Government spend one penny, and it will not.

I have one question because we are going to try and pass this legislation. Senator Hatfield I am sure will do his best, and if he can move it in the Senate, then we will do our best to move it in the House. If we do, if we are successful in passing first the Senate and then the House of Representatives with such a bill, will the administration then realize how desperately it is needed and sign the bill?

Mr. CROWELL. Mr. Chairman, I cannot answer that question because that would have to be judged within the context of time and the situation as it arises.

As you know, a Presidential veto is peculiarly a personal decision of the President, and it would be ultimately up to the President to make a decision on this bill or any form of it that might eventually be presented to him.

Mr. WEAVER. Will you recommend that he sign the bill?

Mr. CROWELL. I would have to defer that decision and recommendation until I could evaluate the circumstances at the time.

Mr. WEAVER. You mention in your testimony that 6 million of the 22 billion board feet now under contract could only be profitable if harvested at the highest lumber and plywood prices. So therefore nobody anticipates that happening again for many years. Therefore, you yourself in your testimony say that it is impossible to operate these sales for years.

Mr. CROWELL. That is correct, Mr. Chairman. However, one then has to look at the other side of the coin and explore the reasons why such prices were bid, and also look at the fact that there were people who would have liked to have bought that timber at a lower price but did not. Such people have gone without timber supplies or maybe even gone out of business. Is it now right to provide some relief to the people who bid these high prices and did get the timber where others did not and have paid the price?

These are the considerations of equity which have to be looked at. This is not a simple problem. I know that you and your colleagues in examining this will be very much aware of all of the complications and ramifications of the matter.

Mr. WEAVER. This is what I see. I see that if indeed our economy does begin a recovery it is going to be slow. Everybody knows that. However, if indeed it does begin a recovery over the next few years, and we are able to come back with a viable housing and timber industry again, if we persist in bankrupting our present industry, it will take years and years and years to put back the companies, the operations, the work force to meet the demands that are coming in the recovery. Now is the time to act. Now is the time to make sure we have a viable industry for the recovery years to come that you promise us, that you say are going to occur.

However, if you let them go bankrupt across the board, it will not happen. In southwest Oregon, we will not have an industry. It will be defunct for years.

Mr. CROWELL. Mr. Chairman, I think you have to draw some more specific conclusions. It is not a necessary conclusion that defaults necessarily would lead to bankruptcy. That would be a likely conclusion in a situation where a default of course took place with a purchaser who did not have the financial capability of responding to the damages which would be due as a result of default. However, the proposal to grant new authority to the Secretaries to deal with damages in a discretionary way and to stretch out the opportunity or the time in which the damages would be paid would prevent bankruptcies as you are talking about and would keep those operations in business, which is more than has happened for some of the businesses that were prudent enough not to bid these extremely high prices.

Mr. **Weaver**. Mr. Secretary, as you can imagine, I have followed this issue closely, dealing with all aspects of it as I am sure you have, looking at the entire Nation, the entire timber industry, I see a solution that benefits everybody. Our industry in Oregon and Washington badly needs to have a fresh start. That is all that we are asking for, a fresh start—no bailout, no subsidy, nothing but a fresh start to keep us viable so that we can continue. All we are asking for is a fresh start in the Northwest.

The South says not to dump all that timber on the market, as it will drive their privately held timber down in price and devastate them. So the South asks how much timber we sell in the Northwest. Our industry says they have to sell enough to keep them going. So some balance is going to be made there.

I see a solution here, and the Federal Government gets the fact that we keep a timber industry going, paying taxes, people working. So I see the solution. It is so simple and everyone benefits. You can bring everyone together on it. I am positive the Congress can come to this solution. You mention in your testimony you want to put more timber on the market which the South is not going to like at all as long as our housing starts remain around 1 million. The South is going to be very upset about that, and so your policies actually go against every segment of the industry.

Mr. **Crowell**. Mr. Chairman, I think you are misunderstanding that portion of the testimony which says that we should be putting more timber on the market. What I am saying is that we should persist with our regular timber sale program as a means for providing adequate timber supplies to the Federal timber-dependent mills. That is one of the assurances which is badly needed for mills to stay in business and not to get back into a high priced bidding situation which was caused in large part by the fact that inadequate timber supplies were being furnished by the Federal agencies for one reason or another.

Mr. **Weaver**. Mr. Secretary, that is simply just not the problem today. There was an economist who said that sounds all right for the long term, but in the long term we are all dead.

On top of this, Mr. Secretary, I have introduced resolutions, one resolution signed by almost every Member of Congress in the Northwest, urging the various Federal agencies, particularly the BLM and the Forest Service, to take the funds they have now and put priorities on the expenditures of those funds on creating jobs immediately. I think you were here when I read the letter from Mr. Max Kimmell earlier this morning.

Mr. **Crowell**. Yes, I heard it.

Mr. **Weaver**. Why cannot we at least do that? Why cannot we for instance take the unoperated sales, the present unoperated sales, and actually start building roads right now? Why do not we put road crews to work and get the roads ready? This is so that if the Reagan administration is successful—and I hope that you are—and recovery comes. Then we are already to go in and get the timber for the big housing boom that will happen. We could be putting people to work today.

People are leaving the Northwest. They are going elsewhere, and we are losing our work force. So why cannot we do that as an example? Why cannot we get more timberstand improvement going, putting loggers to work right now? Why cannot we be working on roads and trails, facility maintenance, all these various aspects? Can you answer that for me, please?

Mr. **Crowell**. As you know, Mr. Chairman, the Forest Service and the BLM both do have ongoing road construction programs and also reforestation and timberstand improvement programs which have been funded in this fiscal year. The Chief of the Forest Service just a few weeks ago wrote to all of the Regional Foresters and through them to the Forest Supervisors urging them to look for ways in which they could provide, through their normal funding processes and the normal workloads, additional opportunities to put people to work.

Mr. **Weaver**. With all due respect, Mr. Secretary, that letter eminated because I just screamed and shouted and said do something that we finally got that letter out. If I had not screamed and shouted, I do not think that letter would have gone out.

I am asking you for more than that. I am asking you for a crash program to put people to work right now.

Mr. **Crowell**. Of course, that takes money, and our money comes from the Congress. The Congress is as much aware as anyone in the country of the money crunch that we have for the Federal budget. Again, it becomes a matter of working out priorities. You gentlemen up here have a great deal to say about that, and I know as a champion of the Pacific Northwest and its forests that you work very hard for appropriate funding for these kinds of programs.

However, the priorities, as you know, when they get into the Congress, get diluted by priorities that your colleagues have.

Mr. **Weaver**. I am sorry, but your administration proposed, for instance for timberstand improvement, $23 million with an RPA level of $46 million, in other words, one half. You are not asking for the money.

Mr. **Crowell**. That is the kind of priority weighing that the administration has a responsibility to do too. In the President's budget request, we have to be responsive to the limitations of funding and the priorities to get other things done. That request for timberstand improvement was less than the RPA optimum requirement it is true. There are a lot of other things in the budget for the Forest Service that were less than the RPA optimum.

Mr. **Weaver**. But we have to face reality. The KV funds are not building up because we are not harvesting the timber. Therefore, even there that important source of funds to provide jobs out in the forest is being diminished. So why are not you coming in here and asking for something to help us instead of opposing solutions that we, the industry, and others have come up with? All they are asking for is a fresh start. Have you read the industry paper here, sir?

It is a statement in support of a timber industry proposal for modification for Federal timber sale contracts submitted by the Industrial Forestry Association, Northwest Independent Forest Manufacturers, Northwest Pine Association, Northwest Timber Association, Western Forest Industries Association, Western Resource Alliance?

Mr. **Crowell**. No, I have not. It has not been provided to me to my knowledge.

Mr. **Weaver**. It incorporates the thinking of the industry and their interindustry negotiations. I wish you had read it because they support very clearly exactly what has happened, what the problems are, what the most equitable solutions are. It is in the record of the subcommittee. I placed it in the record yesterday morning.

Mr. **Crowell**. I suspect that I am familiar with a good deal of the facts and figures that it contains.

Mr. **Weaver**. I recognize the gentleman from New Mexico.

Mr. **Skeen**. Thank you, Mr. Chairman.

Mr. Crowell, I am sorry I was not here when you were giving your testimony, and I know you enjoy these hearings as much as I do, or maybe not quite as much.

Mr. **Crowell**. I doubt quite as much, Mr. Skeen. [Laughter.]

Mr. **Skeen**. We have a similar thread running through the whole economic trouble spectrum in the United States today. Of course, it is great fun being in an administration that is trying to do something about it. I think the chairman alluded to what happens to the South and what you do in the Northwest is going to have an adverse effect on the southern part of the country. I understood Representative Dicks when he was here to say that it looks like the South is going to rise again on the backs of the C5A. So we are all trying to take care of our problems.

However, in connection with this discussion on termination of these contracts, has the Forest Service and do you, Mr. Secretary, have any suggestions at all as to how to soften the blow to those who would be adversely affected under the operation? I know that you have a list of those things that you do not want to do. You do not want to terminate contracts. You do not want term adjustments, or you are really not in favor of them at this time. So do you have any positive kinds of suggestions or recommendations to make?

Mr. **Crowell**. Congressman, the only affirmative suggestion has been the one for providing new authority to both the Secretaries to deal in a discretionary way for the settlement of damages. That, I know, is not well received. However, it would be a helpful authority, and I think it would provide us a way in which to deal with this problem somewhat constructively.

Mr. **Skeen**. Are you dealing with these cases one by one or one on one? I would assume that that would be the approach that the Department has now taken, as I gather from what testimony I have read. In each case where you have a hardship or something of that kind, is it being delt with on a its respective merit?

Mr. **Crowell**. We are not dealing with them on a case by case basis, nor are we suggesting even with this request for new authority that we be empowered to deal with defaulters on a case by case basis.

Instead what we are seeking is the authority to not have to carry out the present responsibility, which would mean that once a contract was in default damages should be sought to be recovered to the fullest extent and as rapidly as possible.

The new legislation would be on the lines of allowing us to contract with defaulters so that they were provided time, and the contract could be amended in the case of a showing of a need for more time to pay off the damage claim. We certainly do not want to force people into bankruptcy, but we do feel that contracts do have a certain sanctity which should be observed.

Mr. SKEEN. So, rather, the case by case adjustments and determinations that are made are after the problem has already progressed to the point of default. Is that what it is?

Mr. CROWELL. Essentially, what we are saying is that the situation of prospective defaults is going to have to be addressed sooner or later. There is time, because of the extensions which have been granted already by the two agencies, to allow purchasers to try to work their way out of the situation.

However, if that turns out to be insufficient, then defaults are likely to occur. At that point, we would appreciate having the authority to be able to deal with the situation with considerable discretion, so that people would not be forced into bankruptcy and we would not lose the productive capability which is now in place in the industry, particularly in the Northwest which is the area most troubled by the particular problem we are addressing here today.

Mr. SKEEN. Thank you, Mr. Crowell.

Mr. WEAVER. Thank you.

I just find this incredible. In the questions from the gentleman from New Mexico on defaults, you say the only thing you want is the ability to handle defaults. So in effect, what you are doing is turning the Reagan administration into a bankruptcy court, if that is the way to run a business. I had hoped that a Republican administration——

Mr. CROWELL. The request for new authority, Mr. Chairman, is to prevent the normal consequences of these defaulted contracts from leading to the bankruptcy court.

Mr. WEAVER. Mr. Secretary, I thank you very much. Frankly what I would prefer, is to keep you on the stand for another several hours, hoping that we could work out a solution here; hoping that we could come to some meeting of the minds; hoping that we could go over the data, the problems and say that we each can move a little ways and we will come up with a solution. That is what I had hoped.

However, the position that you have stated here today appears to be adamant, unreconcilable, and unbending. Therefore, I am sorry. I will thank you very much for appearing together with your colleagues.

We will go on to our next witnesses, after we have come back from voting. Our next witnesses, for the subcommittee's record today, are going to tell us what the real problem is and what the real solutions are.

Thank you very much, Mr. Secretary.

Mr. CROWELL. Thank you, Mr. Chairman.

Mr. WEAVER. The subcommittee is recessed for a few moments.

[Recess taken.]

Mr. **Weaver**. I call Mr. John Stephens, the president of Roseburg Lumber Co. Welcome, John. We appreciate your coming as the president of the largest independent lumber company. That is my understanding. I am very proud to have Roseburg Lumber Co., in my congressional district. I welcome you. Won't you proceed, please?

STATEMENT OF JOHN J. STEPHENS, CHIEF EXECUTIVE OFFICER, ROSEBURG LUMBER CO., ROSEBURG, OREG.

Mr. **Stephens**. Thank you, Mr. Chairman. You are very kind to give me this opportunity. After listening to the position of the administration, however, I have a feeling we may not be independent very long.

These Federal public timber contracts are a major cause of the acute economic distress of our industry, and our very survival as employers and suppliers is dependent upon some relief from this problem.

I am now the president of Roseburg Lumber Co. Our company is a family-held corporation with facilities located in Coos and Douglas Counties, Oreg.; and Anderson and Shasta, northern California. We normally employ over 4,000 people in 7 different geographic locations. We are faced with a very weak wood products market, and this condition has been created by a change in Federal policy dealing with the capital available for housing and with other economic programs that are intended to bring down inflation.

At the same time we are burdened with a number of very high-priced Federal timber contracts that had been bid during the late 1970's under a different set of Federal policies. As a result of these pressures—a weak market and high priced timber contracts—our company is in real trouble today, and our employees are paying the price for this battle against inflation.

Of the total employment of our company, which peaked at just under 4,000 in 1977, we now have less than 3,000 people employed, and a portion of those who are employed are working on a curtailed basis. This condition is not a temporary situation. Almost 1,000 of our employees have been laid off for 2 years. Throughout the western wood products industry, about 60 percent of all of the facilities have either been shut down or are operating on a curtailed basis.

The unemployment in Douglas County is consistently running at 20 percent, and the wood industry in the same county has been curtailed by about 40 percent. Because of the high unemployment and loss of county timber receipts, the State, county, and municipal funds have been slashed. I was surprised when I arrived in Roseburg to find that we are losing a large number of our critical public services such as reductions in fire and police protection, a reduction in the school curriculum offerings, and a general collapse of the other social services.

Overall, approximately 80 percent of the outstanding Government timber sales contracts in our area are economically inoperable because of the condition of the wood products market. I have picked a simple example of what has happened. The price of No. 2

and better 2 by 4 lumber in 1979 was $260. Today, in August 1982, it is $150.

At the same time lumber imports from Canada have increased their share of the U.S. market from 20 percent to over 30 percent within the last year. Canadian lumber producers are subsidized by reduced stumpage costs and favorable freight rates, which enable them to be unusually competitive under the conditions that now exist. Their logic is clear. In this way Canada can export their unemployment into our markets.

Our company has always been heavily dependent upon public timber to provide employment, to support our communities, and to service our customers. During the 1970's we were treated to reports by the U.S. Forest Service that predicted timber shortages because of continued strong housing and other demands for wood fiber. At the same time a number of studies were under way that held timber producing land out of production while it was decided whether or not they should be set aside for other purposes.

This created for us a perception of an uncertain future timber supply. The result was that we bid against our competitors, who are also anxious to secure future supplies of raw material, and dramatically ran up the price of Federal timber. Ours is a highly competitive industry, and the alternative was to not bid for the timber and run the risk of shutting down our facilities for lack of supply. With the collapse of the wood products industry, we found a large portion of our inventory of contracts economically inoperable. Operating these contracts would cause significant losses and would liquidate all of our corporate net worth.

In order to maintain some level of employment in our communities, we have been operating at a loss for over 2 years now, even after taking every possible cost reduction move we could devise. We are faced today with the alternative of defaulting on many of our public contracts, an alternative that is also available to many of our competitors. If this occurs, the Government will spend a considerable amount of time and money attempting to collect default damages. In many cases they will be unable to collect from companies that have gone out of business.

At the same time a rash of defaults will flood the timber market with sales that the Government must reoffer as a part of trying to collect damages. I am not sure how this would work under the new proposal. I suppose we would get a coupon book from Household Finance, and we would pay on them for the rest of our lives. However, for the longer term, defaults and bankruptcies of our independent companies will further concentrate the industry in the hands of fewer and larger companies.

We have already seen the permanent closure of a number of our wood products competitors in Oregon in the past year. Apparently, Mr. Peterson and Mr. Crowell will operate many of the foreclosed facilities as well. Mr. Chairman, the alternative of default and further bankruptcies cannot be acceptable. After all, one party to our timber contracts had the power to change the basic rules by which the economic game was played. I am appealing to that party to modify the contracts by providing us an orderly way to continue in business and fulfill our obligations.

I believe that we should be permitted to terminate all or a portion of these contracts. The terminated contracts should then be considered a part of the normal timber program of the Forest Service and the BLM to be reintroduce to the market in an orderly way. Any remaining contracts should be extended to enable us to introduce the volume as the market requires. This should improve the management of the national resource since it would be introduced to the market as demand improves.

This will enable us to continue providing employment, revenues to our communities, and cost competitive building materials to our Nation. We would be able to buy new timber sales at prices reflecting the present market values. By averaging this in with the more expensive timber we hold under extended contracts, we would have a somewhat better opportunity to operate, at least to break even.

We would move ahead with our road construction program, promptly reintroducing jobs in that sector. We can then go back to the business of effectively competing on a cost basis against Canadian imports and give our management attention to building for the future rather than our constantly worrying about this burdensome problem.

Thank you for the opportunity to testify before your subcommittee.

Mr. WEAVER. I want to thank you very much, John, for a sober, sensible statement. You answered all the questions that I was going to ask you. The condition of your operation you described; I was going to ask you what you thought of the default policies enunciated by the Secretary, and you described them.

I regret now not asking the Secretary about the rash of timber coming on the market on the default because if they are going to assess damages, the present policy is that you put the defaulted timber back on the market. The difference between the original contract price and the price it is rebid for is the damages. That is how it is determined. Therefore, that would mean it would have to come back in the market.

Perhaps that is what he implied on a bill handling defaults. He may have meant it was something to take care of that.

As I said, Roseburg Lumber is the largest independent employer in my district. I can only tell you this. I will fight like the blazes for what we know is the right thing to do. Any government that cannot give a major industry that is in trouble, not because of its own fault, a fresh start, is beyond my understanding.

Mr. STEPHENS. We certainly appreciate your support and your efforts.

Mr. WEAVER. I want to say to you that I hope you use all of the knowledge and persuasion at your disposal to discuss and talk with the members of this subcommittee and the Congress because we still intend to try to pass this bill. We are going to try to pass this bill. I hope that Senator Hatfield is of the like mind. I am sure he is, and I hope he will move it in the Senate. I certainly will do everything I can here.

Thank you very much, John. I appreciate your coming.

We now have a panel consisting of Mr. Richard Pardo of the American Forestry Association; Mr. Peter Kirby, the American Wilderness Society; and Mr. Tim Mahoney of the Sierra Club.

I had wanted to say to John Stephens while he was on the stand that viewing the Canadian Government's policy of dumping timber at almost no price and our Government's policy of keeping timber at a high price, both are at the extreme positions. One government is way out here, and the other government is way out here, and both are devastating their industries. To my mind it is sheer madness.

Gentlemen, won't you proceed?

STATEMENT OF RICHARD PARDO, PROGRAMS DIRECTOR, AMERICAN FORESTRY ASSOCIATION, WASHINGTON, D.C., REPRESENTING REXFORD A. RESLER, EXECUTIVE VICE PRESIDENT

Mr. **Pardo**. I am Richard Pardo, programs director of the American Forestry Association. Our executive vice president, Rexford A. Resler, had hoped to be able to appear this morning but was prevented from doing so by a previous commitment on the west coast. He has prepared, however, a written statement on this subject, and with your permission, Mr. Chairman, I would like to ask that his statement be inserted in the record. This morning I will take just a few minutes to briefly highlight the contents of the statement.

Mr. **Weaver**. I appreciate that. Rex Resler is one of the finest people in the forestry field. Without objection, a copy of Mr. Resler's written statement will be placed in the record.

[The prepared statment of Mr. Resler appers at the conclusion of the hearing.]

Mr. **Pardo**. I should note for the record, although I know you are aware of it, that Mr. Resler did receive his forestry degree from Oregon State, had a distinguished career with the Forest Service, several years of which he was regional forester for region 6 in Portland. So his comments are based on a close familiarity with the subject of Federal timber contracting and the timber industry in the Northwest.

There is no question that through a combination of circumstances a number of Federal timber purchasers, mainly in the Pacific Northwest, now find themselves under contract to pay far more for the timber when they harvest it than they can hope to recover in today's disastrously depressed homebuilding and lumber market.

Although we normally would not favor legislative intervention into contracts entered into between purchasers of Federal timber and the Federal Government, we believe that in the long run under the circumstances it is in the public interest to take steps to moderate the consequences that will occur if present conditions in the lumber industry continue and no relief is granted.

The options at present are either to continue to extend inoperable contracts on a year-to-year basis as the Forest Service has done and the BLM, or to refuse extension and let the contracts go into default, in which case the Government then would be able to sue for damages. Neither of these courses of action will reopen idle mills, put people back to work, or result in the continued orderly sale of public timber.

So it is for these reasons that we favor a legislative solution to the problem and as rapidly as possible. H.R. 6913 offers three options—contract extensions, terminations, or price rollbacks. Of these three approaches, we believe that contract termination is the best solution, with the amount of termination, whether it be 40 percent as has been discussed or some other figure, to be established through negotiation by the principals involved.

We feel that contract extensions would only prolong the problem and not be a solution. Adjustments in price would leave the purchasers holding more favorable contracts, and that would not be fair to those who failed to bid successfully and speculatively the first time around. Contract term adjustments going beyond those permitted under contract require legislation, and these adjustments, like extensions, would prolong the problem, although we would not be categorically opposed to contract term adjustments.

However, again we feel that the quicker the problem can be solved and people put back to work the better. We agree with the comments that have been made that sales that are terminated should be metered back into the market in such a way as to avoid a dumping of timber that would only further depress the lumber market, not only in the Northwest but elsewhere as well. As you have pointed out, Mr. Chairman, default would result in that timber being put back on the market immediately in order to establish damages, another reason why we feel default is not the way to go.

We do have a concern, however, about the form in which relief legislation may be enacted. Prompt action is needed to put people back to work. The general language in H.R. 6913 authorizing the Secretaries of Agriculture and Interior to extend contract terms, terminate contracts, and so forth may be all that Congress can agree on at this time. However, we believe that without the administration's concurrence on the specific actions that would be employed the agencies of the Secretaries would find it difficult if not impossible to get the necessary rules and changes cleared through OMB.

I think the testimony of Secretary Crowell as to the administration's position certainly reinforces that year, that if the methods are left up to the Secretaries of Interior and Agriculture, we fear very little will get done.

So we would strongly urge that if explicit language is not enacted in legislation, the record of the hearings, congressional intent, be clearly established in the hearings. We would recommend if possible that legislation contain explicit language so that there is no doubt as to what Congress intends.

We commend you for introducing the bill and pledge our support and hope for speedy action on this.

Mr. WEAVER. Thank you very much, Mr. Pardo.

Mr. Kirby.

STATEMENT OF PETER C. KIRBY, COORDINATOR, FOREST MANAGEMENT PROGRAM, THE WILDERNESS SOCIETY, WASHINGTON, D.C.; ALSO REPRESENTING NATIONAL RESOURCES DEFENSE COUNCIL

Mr. KIRBY. Mr. Chairman, my name is Peter Kirby, the coordinator of the forest management program at the Wilderness Society.

This testimony is also being presented on behalf of the Natural Resources Defense Council.

The conservation community is very sensitive to the economic problems besetting the Northwest because of high interest rates, a collapsing timber agency, and record unemployment. We want to help shape measures that lessen the human and economic impacts of this recession and bring about eventual economic recovery.

Our most constructive role in this current, we submit, is to suggest ways that legislation can be improved environmentally and economically. If these improvements are made there can be a greater public concensus in support of a bill and a greater likelihood that needed relief can be afforded the Northwest.

Our position on H.R. 6913 is that we generally support contract termination as the most appropriate relief for the timber companies and communities that are sorely distressed by the sharp drop in housing construction and timber prices. As we will explain, we have no objection in principle to legislation allowing for the termination of existing contracts provided that needed safeguards insure that the relief is economically sound and environmentally responsive.

In my testimony this morning I would like to point to three safeguards that we would urge upon the subcommittee. First, there should be a forest-by-forest moratorium on new timber sales in roadless areas until terminated sales in roaded areas are reoffered for sale. According to the latest estimates, more than 10 billion board feet are now under contract in Oregon and Washington at prices that make the sales unprofitable to harvest. When these contracts are terminated, it makes strong economic and environmental sense that they should be reoffered first before brand new sales are made available.

From an economic point of view, the terminated sales should be reoffered first because of obvious cost savings to the Government. These are sales that have already been prepared, received environmental scrutiny, and can be reoffered most efficiently.

From an environmental point of view, the reoffering of terminated sales in roaded areas will allow for a reduction in road construction mileage needed in the next few years. As the chairman knows, road construction is one of the single biggest causes of environmental damage to the national forests. It often results in serious stream siltation, fisheries and wildlife habitat damage, and visual scarring among other effects. By selling the terminated sales first—those from roaded areas—the Forest Service can still offer the timber levels set by Congress through appropriations and cause much less environmental damage.

In addition, Mr. Chairman, roadless areas designated nonwilderness in RARE II would not need to be entered until all the terminated sales are all reoffered. This outcome would benefit all parties conferring on wilderness legislation in the Northwest, including the congressional delegations. They would gain additional breeding time for careful study of areas under consideration.

Second, like Mr. Pardo a moment ago, we believe that contract terminations should be the preferred remedy for uneconomic contracts, not further contract extensions or price reductions. Contract termination appears to us to be the remedy that best addresses the current crisis. If uneconomic contracts are terminated, then the companies now holding them will not face default. If the contracts are reoffered, they will be sold at current market prices, allowing for work and employment to resume.

Extensions and price reductions are not needed if termination authority is granted and used. These additional provisions have the effect of rewarding the speculators who bid up the prices of contracts in the late 1970's. It is not in the public interest to do so.

The third and last thing, Mr. Chairman, is that I want to emphasize the conservation groups strongly oppose any uneconomic and environmentally damaging road credit provisions being added to this bill. Preintroduction drafts of relief legislation in the Senate contained a variety of provisions extending virtually limitless benefits to timber companies for the construction of roads to service timber sales. Under current law, as you know, the Federal Government reimburses timber companies for the costs of building timber sale roads but not for road costs beyond the value of the timber.

Earlier drafts of this relief legislation in the Senate would have changed the law to give timber contractors credit for all road construction costs regardless of the value of the timber.

These are some of our environmental and economic objections. First, the change in law would allow for an undisguised and uneconomic raid on the Federal Treasury by the timber companies. Under present law if the sale has 50,000 dollars' worth of timber, the company gets no more than $50,000 in reimbursement for road costs. If the law were changed as proposed in earlier drafts, the company could be reimbursed for $150,000, let's say, for costs in reaching this 50,000 dollars' worth of timber. The Treasury in effect would be paying a timber company to take Federal timber for free.

In our hypothetical case, there would be no receipts or only nominal amounts going to the Treasury for the 50,000 dollars' worth of timber, and $100,000 in revenues being taken from the Treasury because of the road construction costs. Even though road credits effectively take money from the Treasury, they are not treated as appropriations by congressional appropriations committees. Hence, the change in law to allow all road costs to be reimbursed would allow for a major and unscrutinized drain on the Treasury.

Second, the change would reverse past efforts by Congress to bring economic common sense to Federal timber management. Section 6(k) of the 1976 law, as you know, directs the Forest Service to consider economic efficiency in making timber sales and investments. Limitless road credits, not even subject to the appropriations process, would remove major disincentives for the agency in pursuing highly uneconomic sales in remote areas.

Mr. WEAVER. Would you summarize your statement, please?

Mr. KIRBY. Yes. The change would draw demand for timber to the national forests and away from private lands.

Third, limitless road credits could disqualify millions of acres from deserved classification as wilderness. Last, this is not the first time that this type of road construction subsidy has been before Congress. Legislation was introduced in 1975 to allow for the reimbursement of all road costs, and Congress did not accept it.

In sum, Mr. Chairman, the Wilderness Society and NRDC recognize fully the severe economic problems that the sponsors of this bill have addressed. We hope that our suggestions for improvements will widen the basis for its support in Congress.

Mr. **Weaver**. Thank you very much. Without objection, a copy of your prepared statement will be included in the record.

[The prepared statement and supplemental statement of Mr. Kirby appears at the conclusion of the hearing.]

Mr. **Weaver**. Mr. Mahoney, would you proceed, please?

STATEMENT OF TIM MAHONEY, WASHINGTON REPRESENTATIVE, SIERRA CLUB, WASHINGTON, D.C.; ALSO REPRESENTING NATIONAL AUDUBON SOCIETY

Mr. **Mahoney**. Mr. Chairman, may I have my statement inserted in the record?

Mr. **Weaver**. Without objection, a copy of your prepared statement will be placed in the record.

[The prepared statement of Mr. Mahoney appears at the conclusion of the hearing.]

Mr. **Mahoney**. I would like to just highlight some of the major points. Mr. Chairman, my name is Tim Mahoney. I am the Washington representative for the Sierra Club. Today I am also testifying for the National Audubon Society.

First of all, let me thank you for holding the hearing. We have had discussions over the last several months with staff on both sides of the Hill and with many of the representatives from the industry. One of our desires has been that the provisions of timber relief legislation receive full and fair hearings. We appreciate it.

We want to work constructively with you and with the Senate in trying to achieve legislation for the relief of the hard-pressed timber industry that is as environmentally benign as we can make it. We pledge to you our cooperation in that endeavor. People do not join the Sierra Club or the National Audubon Society for particular reasons of economic policy. Yet, our members in your district and in the Northwest as well as members everywhere else are hard hit when the economic times are bad. Our members want a strong economy. We want strong business. We want employment levels to return to the rates that they were previously. We find the challenge in this is to see that the economic recovery and the strengthening of the industry can be done in the most environmentally benign way possible.

We look at this ultimately then from our environmental view. We believe the legislation before us, H.R. 6913, is a good start. We would like to see some changes and some modifications made in the legislation. First and most important to us, we believe that the terminated contracts should be the first or among the first sales to be reoffered in future timber programs. Mr. Kirby has mentioned many of the economic and planning arguments for this. Our reasons are environmental. It postpones roadbuilding and timber harvest in some of the more environmentally sensitive areas until and in particular the Congress has had an opportunity to look at those areas for wilderness legislation.

We have been waiting far too long for legislation to resolve the wilderness recommendations in the Northwest and elsewhere in this country. We look for any escape valves that will allow us to take a better, more careful look at those areas.

As the other people on this panel have testified, we are concerned about both extensions and rollbacks in the legislation. We prefer to see neither. The Forest Service and Secretary Crowell have limited extension authority that has been exercised and I assume will continue to be exercised. From an environmental standpoint, we do not want to see the timber sales currently under contract held in abeyance for a long period of time while new roads are made for new, cheaper sales. We prefer to see all of the contracts terminated to the extent that the industry wishes them and reoffered immediately or in a nominal way.

Most importantly, it is not in any of the legislation before us, but it has been before the drafts. It is the talk going on in the hall outside. I want to make it very clear that we are opposed to all versions of the road credit proposals that have been suggested so far. We believe that, unlike the contract termination, road credit proposals create incredible changes in the way in which our forests are managed in the great majority of the forest lands all across the country and that they have significant environmental impacts.

We believe the suggestions for road credits are not directly recession-related, as are the requests for contract terminations. We see the proposals for road credits are for permanent changes in the way in which the national forests are managed and not just a temporary recession-related proposal. We believe they contain massive hidden subsidies, and we are most troubled by the fact that these proposals have been floated at the same time in which changes in the National Forest Management Act regulations are being undertaken.

There is an unrelenting push for increasing the road budgets for the Forest Service in the appropriations bills, while other appropriations for forest management are being cut back. There remains an unrelenting push for new legislation to change the National Forest Management Act to preclude future wilderness consideration. Taken together, we see this to be a devastating attack on the environment.

Finally, Mr. Chairman, let me reiterate our willingness to work with you on this legislation. We desire also to see that the other legislation which has been introduced can be worked on in an equally cooperative manner. In particular we would like to see the rapid resolution of the wilderness controversy in the Northwest. Particularly, we would like to see a cooperative attitude taken toward wilderness legislation in Oregon, Washington, and California. We hope that the other witnesses today will join with us in that regard as well.

Thank you.

Mr. WEAVER. Thank you very much. As spokesman for forestry and environmental organizations, I think your remarks have been very constructive. I think you are to be commended. Some people have the idea that environmentalists and environmental organizations want to shut everything down. I think your testimony today shows it is exactly the opposite. We want a healthy, thriving economy using simple, reasonable ways of handling our resources. So I want to thank you. It has been very helpful.

We will make a good record, and as the legislation progresses your views will be held in mind. Thank you very much.

Mr. **Mahoney**. Thank you.

Mr. **Weaver**. I would like to announce that I am going to call Mr. Art Adams, Mr. Michael Burrill, and Mr. Arnold Ewing to stand now and also Mr. W. H. Harrison if he is here. I understand they have a pressing appointment shortly, and therefore I want to be able to get them on the stand.

I will say this. We are going to adjourn immediately after this testimony and come back at 1:30 for the balance of the hearing.

Do you want to proceed?

STATEMENT OF ARNOLD EWING, EXECUTIVE VICE PRESIDENT, NORTH WEST TIMBER ASSOCIATION, EUGENE, OREG.

Mr. **Ewing**. Thank you, Congressman. In fairness to time, I would ask that my total testimony be included in the record, and I will barely touch on it. I have some other opening comments I would rather make.

Mr. **Weaver**. You always have excellent statistics. They are welcome for the record. Without objection, a copy of your prepared statement will be inserted in the record.

[The prepared statement of Mr. Ewing appears at the conclusion of the hearing.]

Mr. **Ewing**. Thank you. Yesterday when I listened to the devastating message outlining the administration's opposition to any form of relief, I was crushed. I was crushed again today when I heard a repeat of it. I had a feeling that our problem is a minor irritation to the idealogs in their blind march toward their goals. Any consideration of our desperate situation was callously disregarded. It was a feeling that I, along with all of our northwest forest industries people, was being shoved into a huge compactor.

The compaction unit has been turned on with a variable speed device. The administration's message was: "Don't worry. There are no BLM contracts expiring at this time, and only a few Forest Service sales will be expiring in the immediate future." Now this is comforting for those in the huge compactor to hear the reassuring message don't worry, only a few of you will be crushed to death in the beginning. Maybe I will not be one of those who will be the first to die, but I know it is inevitable.

As time moves and the stacked up sales expire in ever increasing numbers, the variable speed compactor increases at an accelerated rate, crushing life out of our industry. My first impulse was to give up and go home. Then I got mad. This callous message was only a part of our great American system. This calls for a vigorous presentation of our message loud and clear to our Senators and our Congressmen, and perhaps other more sane voices within the administration will heed our message.

Mr. Chairman, I know that both you and Senator Hatfield will push for this legislation. I am grateful to you for that, and I would like to refer you to two sets of tables to show how the compactor is working. It is in the back of my testimony. There is one with a series of bar graphs. This is made to show the timber that has already expired in the first bar graph—March 1982. That is timber that is under extension now. That is 899 million feet, nearly 1 billion board feet at $380 a thousand.

We have already paid our extension deposits on that. This fall we will be paying interest on those timber sales. This will be the first trickle toward defaults. As you move to each year you see increasing volume coming up each March 31, as standard in our general area. at an increasing price. So that is the reason I indicate this compactor with a variable speed will be increasing and will be going down harder and harder each year with a volume of timber that is going to be defaulted, and we are going to be in serious problems if we do not get this legislation.

I know and I do appreciate your position that says you will fight today. Last night when I wrote that I knew I would hear that kind of a comment out of you, Congressman. Thank you.

Mr. **Weaver**. Thank you very much. This sheet dramatizes exactly what we will have to convey to everyone else.

Why don't we take Mr. Burrill?

STATEMENT OF MICHAEL E. BURRILL, PRESIDENT, EUGENE F. BURRILL LUMBER CO., MEDFORD, OREG., AND PRESIDENT, NORTHWEST TIMBER ASSOCIATION, EUGENE, OREG.

Mr. **Burrill**. Thank you. My name is Michael Burrill. I am president of Eugene F. Burrill Lumber Co. in Medford, Oreg. I am also president of the Northwest Timber Association located in Eugene, Oreg.

I have presented written testimony to you. After hearing Secretary Crowell's testimony, I find it difficult to proceed. I would request that my written testimony be included in the record.

Mr. **Weaver**. Without objection, a copy of your prepared statement will be entered in the record.

[The prepared statement of Mr. Burrill appears at the conclusion of the hearing.]

Mr. **Burrill**. I and I am sure others got very little sleep last night as we agonized over what the administration is doing to us. Burrill Lumber Co., has been in business for 40 years and is now under its second generation of management. My father started with nothing in 1942, and here in 1982 the actions of this administration may destroy 40 years' worth of work.

Small businesses do things a little different than big businesses. One of the things we are required to do that others do not is that, even though we are a corporation, we are required by our bonding companies and our banks to provide personal guarantees. The results of what is happening are not only going to have an impact on the corporation that I represent, but it also represents an impact on my total assets.

We employ approximately 130 people. We manufacture high quality 2 by 4 studs for the homebuilding industry and have gained a reputation in the industry for our quality products. We process approximately 35 million board feet of timber through our mill each year. Due to the type of logs that we need, we find it necessary to carry a timber inventory of about 100 million board feet or

3 years' volume. All of this timber is purchased from the U.S. Forest Service and the BLM.

Congressman, we are good operators. We know what we are doing. We knew what we were doing when we bought these timber sales. Mr. Crowell's testimony said that we made mistakes, and thus we must be made to pay for those mistakes. I submit to you that it is extremely difficult to project 3 years in advance, even in the best of conditions, that when your Government by its own actions destroys the homebuilding industry and then blames you for that it hurts, and it hurts bad.

Our President, President Reagan, whom I voted for, has taken actions to stop inflation, and we all agree that that must be stopped. He has asked us all to support his plan; and we have. He told us that we would all have to suffer, and we have. Now he is asking those of us in the forest products industry to be destroyed. I say no. I was prepared to come in and hand over the keys to my company, because that is what is happening. I got mad, and I guess my answer to that is if he wants them he is going to have to come and get them.

The plan that Mr. Crowell has presented would cost me in excess of $14 million. My total annual sales are no more than that. If you added up all of the profits of our company, the company's 40 years of history, they would hardly reach that amount. Do you realize that the interest alone on that kind of debt at 10 percent interest—and that is low—is $1,400,000 a year? Do you realize that we do not make profits of that size even in the best of times? If you allow the administration to proceed with their plan, the Federal Government will own 90 percent of the lumber manufacturing facilities in this country. The industry will be destroyed. The Federal Government will be the one responsible.

Mr. Crowell's statement on pages 1 through 6 has fairly accurately stated the problem and the events that brought on our current dilemma. Our industry is sick, and with a little professional treatment it could recover. In pages 7 through 10, Mr. Crowell's answer to the problem is to destroy the industry. This is much like killing an ill person to rid the person of the illness.

Mr. Chairman, those of us who have spent the last few months working on the problems we are facing have done so in a professional manner and have attempted to view the problem and potential solutions from a total industry point on view. We never attempted to sway the solutions to benefit one company or for that matter one regional area. Mr. Crowell's actions have forced a lot of us to review our own personal situation, and I can tell you it is frightening.

My company has 17 timber sale contracts that were purchased prior to January 1, 1982. These sales total a volume of 110 million feet, and they are all losers. Under Mr. Crowell's plan, I will default on my first two timber sales during the second quarter of 1983. Two more sales would go into default during the third quarter. Four more would go with the second quarter of 1984, with the balance falling on a regular schedule. The first two sales carry a loss of approximately $1 million, and it would thus result in a claim for at least that amount.

I would intend to retain legal counsel to defend my rights, and this will extend for a considerable length of time, the final outcome. The bonding company I am sure would decide that. I was no longer an acceptable risk and would be unwilling to bond future timber sales for us. My estimate at this time would be that at the best we could be out of business sometime late in 1983.

We need your help. Somehow we must wake up the Congress of the United States to the seriousness of this problem. A few of you understand, but it has been our observation this week that most do not and for that matter many do not seem to care. We cannot let this issue become a political partisan issue. We must solve it now while it can be solved.

I have a few other comments that I want to make relative to some of the statements that have been made this morning that I think you should consider. On default of timber sales when they are put up for resale, we must realize that as this volume goes back on the market it will do nothing but depress the market further. That in turn will cause the amount, if there is a bid at all, to be less and less as we go month to month.

Mr. WEAVER. That was the very question that I missed asking the Secretary. I wanted to ask how he was going to deal with this timber that is coming on the market. I am going to call him up after this hearing and ask him that very question, I can assure you.

Mr. BURRILL. Another comment that Mr. Crowell made is, "Defaults may not lead to bankruptcy." I would challenge Mr. Crowell on that statement.

He commented on the high price bidding situation, and I think that that is pretty well understood. He also expressed that in time people could work their way out of this situation. With the numbers that I have given you, I submit to you that it is impossible to work our way out of a situation that is as drastic as this one is.

I had a few more comments, but due to the lack of time I am going to just quickly summarize those. I know you understand what led up to the problem and the problems we have had and why it is a continuing thing. The important thing is that people take shots at us and tell us that we are inefficient, that we make mistakes. Yet when I made the statement that timber sales that were purchased prior to January 1, 1982, were all losers, many of those sales were purchased in 1981 when we knew that we had a down market. The market has been deteriorating so fast that we can buy timber sales and within 2 to 3 months, before we can even perform on those sales, the market has gone so far that those sales will not become losers. It is frightening.

Mr. WEAVER. Mr. Burrill, your statement could not have a more enormous impact. You have said it in a quiet voice, quiet words, but it has an impact. It is exactly what we face. I believe in free market economics. I always have as a small businessman myself. There comes a time when the economy gets frothy and people have gotten into business that should not have gotten in. The shakeout comes, and we shake those out, the inefficient producers.

Somehow these people who are making these policies think that that is what this is, a shakeout of inefficient producers. The very best people we count on to produce most economically the goods we need are going under, and they do not understand this.

I understand you are going to have a meeting with a person in the administration. I must not give up this fight. I think that we can finally find somebody in the administration who would listen. There are plenty of reasonable people there. We can find someone who will lead the fight for us there. It is not partisan, I can assure you.

In the Congress it is not partisan. I do not treat the administration in that way at all. I think that it is a misguided ideology held by certain people. The ideology may be sound, but the facts and what they are doing are not. So I feel that we can make inroads. I urge you to continue to work with these people. The facts and the situation are so clear that in my estimation we will find enough reasonable people who are going to understand it, and they are going to change this policy. I just cannot believe otherwise. I really, honestly believe that.

When I used to be in real estate if I came on a deal that I knew was a good one for both parties, I said that we both are going to make money on this. I never tried to deal. I figured it out very closely. I never tried to skin anybody or anything like that. I figured out a deal that made money for both parties. However, when I found one I kept after it until I closed it, and I did. I closed them.

This deal that we have here is essential for everybody and it helps everybody. So I am convinced that if we keep after this we are going to find enough reasonable people on our side that we can get this done.

Mr. **Burrill**. That is fine. I know that you recognize that those of us on the west coast are used to suffering and you know we are fighters. We are survivors. I can guarantee you we will do what we can. Thank you for your consideration.

Mr. **Ewing**. May I be excused?

Mr. **Weaver**. Yes.

We will now hear from Mr. Adams. Would you forgive me? I have to go vote. I will be right back.

[Recess taken.]

Mr. **Weaver**. Mr. Adams, you may proceed.

STATEMENT OF ART ADAMS, PRESIDENT, NORDIC PLYWOOD, INC., ROSEBURG, OREG.

Mr. **Adams**. Mr. Chairman, my name is Art Adams. I am president of Nordic Plywood, Inc., located in Roseburg, Oreg.

Before my remarks to this subcommittee, I wish to personally thank you, Congressman Weaver, for your support of the timber industry and your efforts to work on legislation for timber contract relief.

Mr. Chairman, I am going to give my testimony in two parts. The first part is written and verbal testimony telling a short story about our company and its present condition. The second is verbal testimony projecting out for you the process our company will go through under the proposed recommendation of this administration regarding timber contract default.

In this testimony I will try to create for you a picture of a small family-owned veneer plant operation located in Roseburg, Oreg. Nordic Plywood, Inc., is a second generation family-owned business, owned and operated by my brother and myself. The company was founded in 1954 by my father, Dick Adams, and has operated continuously for 28 years under the corporate name of Nordic Plywood. Incidentally, Congressman, I have two sons who I sure hope will 1 day be able to take the reigns of our business.

The plant is a veneer peeling facility consisting of 8-foot and 4-foot lathes producing primarily green Douglas-fir veneer used in the production of softwood plywood. We produce byproducts of chips peeler cores, and hog fuel residuals. We employ approximately 75 people. All sales of all products are sold on the open market. The veneer is normally sold to 10 to 12 plywood layup plants within a 150-mile radius of Roseburg, Oreg. Our chips are contracted for export; hog fuel residuals contracted to local users; and peeler cores sold to a local saw mill.

This industry is fiercely competitive, and to compete takes know-how and hard work. At Nordic Plywood we have an excellent plant and operation and one which we feel is respected by other companies in our industry. Our log usage requirements range from 20 to 24 million board feet of logs annually. Of that volume 90 percent comes from federally owned lands, and the remainder comes from private timber land owners. From the federally owned timber lands, approximately 80 percent comes from the Bureau of Land Management, and 20 percent from U.S. Forest Service.

Presently, our company has 56.4 million board feet of both BLM and Forest Service timber under contract. This amount represents less than three years' log usage requirements for our company. You should know that for the past 2½ years the wood products industry has struggled greatly. For the last year or so it has been almost totally paralyzed. From August 1981, to July 1982, the operating losses of our company have been in the high six figures. We have met our Government timber contract obligations while suffering huge financial losses during a continuing plunging product market.

In November 1981, our employees agreed to and accepted a 20-percent wage reduction in order to try to lower operating losses and to continue operations.

On June 30, 1982, our plant ceased operations indefinitely. At the end of this current month, my brother and I will be the only people on our payroll. Our future is very clouded. We have no solid plan of reopening. We do not have one timber sale we can operate now or in the foreseeable future. If we did have a log at an in pond cost to allow us to operate, the extreme softness of our markets continues to create new lows in price almost weekly.

What are the solutions for our industry? It is a fact that today it is safe to say that anyone having Government timber sales under contract and required to harvest the timber in subsequent months probably has or will have a substantial contingent liability attached to their balance sheet. This so-called contingent liability is going to eventually turn into an operating loss unless something is done to preclude that loss.

To preclude that loss can only occur if markets for our products will allow conversion of the log at contract price or the contracted agreement is void. Extensions of contracts do not eliminate contingent liabilities. This industry and my company must have contract termination. The contract extensions do no good.

What lies ahead for my company and our industry? As a businessman when I look back over the past 2 years, many things trouble me. High interest rates have literally paralyzed the wood products industry and many others. Restrictive timber management policies do such a poor job in the total management of our forests and of course the human suffering that goes with being unemployed and all the personal problems that go with that condition.

However, I guess, gentlemen, what lies ahead is the question I am most concerned about. What is the future of Nordic Plywood? Without knowing the future every business decision we have made we felt we made with good judgment. We have spent almost three decades as a family in this industry along with our employees plus all the other companies and people we work with, working hard to make a better plant to reinvesting capital to develop new production and management techniques in order to make us a good, solid, viable business.

Today our future has a large cloud over it. We have timber sales with $400 per thousand board feet for stumpage cost and markets that will barely support a $50 to $100 per thousand board foot stumpage cost.

What good are extensions? You cannot have a policy of extensions and still properly manage and develop our forests or be of service to the industry and the people it supports and from such a policy solve all our problems. The cloud over our industry must be at least partially removed by complete contract termination.

Mr. Chairman, the second part of my testimony, I would like you to go through with me a little process of timber contract default so we can visualize it happening in our company and extending that through to many, many other small timber operators.

In the latter part of 1981 our company operated a small BLM timber sale called Saddle Butte. That sale was the cheapest sale we had. For a 60-day period we wrote a $5,000 check and burned it. We lost $300,000.

Since that time markets have declined an additional 30 percent. It was not hard to figure out from that little exercise that if we even started one other timber contract we would be signing our own death warrant. Without relief we have no choice but to default.

Let me go through a process of default for you with the timber sales we have under contract. Over the next 2½ to 3 years, we have 56 million boardfeet coming due for harvest priced at an average price of $350 per thousand. The value of that timber today, let's say, is worth $100 per thousand. That is a real figure. Simple arithmetic shows us that under the present default rules we have a $250 per thousand deficit. Projecting these facts over 56 million feet gives us a liability of $14 million. We are twins.

Let's continue to go through the process. The instant we default and are assessed the penalty which would be the difference of our original contract price and the new rebid contract price plus interest our accountant must project these values on the balance sheet of our company, reflecting enormous contingent liability and giving us a horrendous net worth figure.

If the Federal Government literally gave our company their timber on our production needs for a period of 5 years on today's market value, I would not have my $14 million liability paid. This does not even include interest.

The question is this, Will my banker bank me? Will my bonding company bond me? Are we going to have an orderly solution to this problem? I do not think so. Let's multiply this similar condition to many, many small timber operations like myself. What happens to the families who have spent generations? What happens to literally thousands of employees? What happens to the total communities?

In closing, this is my first trip to Washington, and I am proud to be an American. I believe I live in the greatest country in the world. However, I believe that my country and my Government must be of service to all of us and meet all of our needs.

I hope that that can happen. Thank you.

Mr. **Weaver**. Thank you very much, Mr. Adams. At the very least they should not break us. That is exactly what they are doing. It is incomprehensible. It really is incomprehensible what they are doing. Every time I hear the individual stories, it becomes more difficult to conceive how they can do it.

I am very interested in hearing the testimony of a member from the South and what your feelings are on this, Mr. Harrison.

STATEMENT OF W. H. HARRISON, VICE PRESIDENT, MILLWAY LUMBER CO., BRADLEY, S.C., ACCOMPANIED BY ROBERT L. DAVIS, SOUTHEASTERN LUMBER MANUFACTURERS ASSOCIATION, FOREST PARK, GA.

Mr. **Harrison**. Mr. Chairman, I am Bill Harrison, vice president of Millway Lumber Co., of Bradley, S.C. We operate a sawmill. We employ about 55 people, and we purchase about 50 percent of our timber from the national forest that surrounds us.

I am here representing Southeastern Lumber Manufacturers Association, which is an association of about 400 members from Virginia to Texas. My company is a very average one of those members. All 400 of us are small business operators in our association.

I have with me Mr. Bob Davis, who is the forester for SLMA. He is immediately behind me.

Mr. Chairman, I have been for a number of years a representative of our association on the National Federal Timber Purchasers Committee, a committee sponsored by the NFPA which deals with timber purchasing problems and also with the U.S. Forest Service in a quasi-official capacity. I had heard of this problem and have been hearing about it since January of this year. I was in San Francisco for a meeting with these same people who have testified and have heard this condition.

I invited a group of them to come to Atlanta in April and explain to a group of people from the Southeast what the problem was and to try to put the problem in perspective. That was done.

I have filed a statement with the subcommittee, Mr. Chairman, and I would ask that it be put in the record.

Mr. **Weaver**. Without objection, a copy of your prepared statement will be inserted in the record.

[The prepared statement of Mr. Harrison appears at the conclusion of the hearing.]

Mr. **Harrison**. I would like to mention for the chairman that after you have listened to 2 days of testimony, both in the other body and over here, you naturally would change or at least modify some of the things that you have stated. However, I do not think it would be a serious change.

Sir, I intend to make my presentation very brief. I would state that in our statement we have positions on almost all of the basic questions that are involved in this matter, such as timeframes for relief, economic hardship definitions, terminations, adjustments, repurchase of terminated contracts, the effects of Canadian lumber imports, possible caps on sales in region 6, operation of adjusted contracts, purchase of credits, and prevention of future problems. We have comments on all those. I will not try to go into those. You have heard plenty of comments in that area.

We would be delighted to answer any questions that we can on our views on any of those particular areas.

I am here primarily, Mr. Chairman, to seek out a course if possible that could be supported by the Southeastern industry that would reach toward solving the problem of our friends in the Northwest. Mr. Chairman, the lumber industry in the Northwest is our competitor. However, we are committed to the principle that a healthy industry in the Northwest as in other parts of the country is in our best interest and is also in the best interest of our country.

We in the Southeast are in a serious recession in the lumber industry. Our own company—my company—has had partial shutdowns over the past 12 months. We suffered a heavy financial loss in the fiscal year that ended March 31, 1982. However, I believe that a majority of the people in the Southeast would like to be supportive of some kind of relief for the Northwest provided it is not simply a shift of the problem to the Southeast. I know the chairman understands that. I have heard him comment on that area.

We believe that none of the members in the Northwest industry and their supporters such as yourself intend that this should happen. However, we would say that it is impossible for you to guarantee that that would not be part of the outcome of whatever is done. We understand this.

Consider the lumber market we are facing, I believe that it is a simple fact of life that if we revive an industry in one area we are going to at least tend to depress it in another. We all hope that the market will improve soon where this would not be the condition and also that something could be done about the Canadian problem, which I think would turn both of our groups loose, if you will.

I believe that if the question is fairly put to our members—I am speaking about our Southeastern members—and the proposal is equitable they would be willing to take the risk. I sincerely hope that I am right in that assessment. As a representative of the Southeastern industry, I have to go home and plan for a solution or I have to get one soon after I get home. That is in front of a skeptical and sometimes hostile audience. That is the course we have set out on, and we hope that some of the years we have could be considered in a legislative package that would come forward and that we could support that package.

I might comment personally, Mr. Chairman. I cannot speak for the people at home, but I think that the administration's position is undignified at best. I do not like to think of my friends in Washington and Oregon whom I have personal friendships with as being in a position of having the operation of their country at the mercy of agency people or people who we call bureaucrats. That is not a happy prospect to me.

Mr. Chairman, I would conclude my remarks with this. If there is anything that we in the South can say or if there is anything we can do, we are interested.

Mr. WEAVER. I understand your position, Mr. Harrison, very well. I think that you are being reasonable from your position. You understand it, and you are also being sympathetic. I appreciate that.

Some of your suggestions, I think, would be good for both you and the Northwest. So, I support them.

I would like to point out something that you alluded to. That is if we all have to fight the Canadian imports we are going to have to be together. You know that.

Mr. HARRISON. Yes, sir. Our association and our own company are presently engaged in a process, as I believe are the industries all over the country, of pursuing this through the channels that are open to us—the trade channels.

Mr. WEAVER. I would like to point out one thing, and that is the administration policy, as enunciated this morning, is one of defaults. As you well know the way you go to default is to put the timber up for bid again, and then the defaulters pay the damages, the difference between the two prices. However, that puts the timber on the market again probably at much lower prices. That would have a devastating effect in the South.

So, I would assume you would not want to see that default policy.

Mr. HARRISON. No, sir.

Mr. WEAVER. I would hope you would communicate it. Your section of the country is represented by some of the most outstanding people who I know. They are absolutely first rate. Here in the Congress we have the highest respect, and if you would communicate that to your members who represent the Southeast portion of the United States, I would appreciate it.

While you do not completely agree with what we want to do in the Northwest, I think there is middle ground we can reach. However, if you could communicate to your people that the administration's policy would be disastrous to the South, that would be very helpful.

Mr. HARRISON. We intend to do the best we can. What we do have to do, sir, as a representative of these 400 members that we have, is to go back home. I know the chairman understands this. We have to try to achieve a level of support in our membership. In turn we will be approaching everyone from Virginia to Texas on this question.

Mr. WEAVER. We appreciate your commenting. The subcommittee will be in recess until 1:45 today.

[Recess taken.]

Mr. **Weaver**. The subcommittee will be in session.

I would like to call to the stand Mr. Norm Bjorklund, executive vice president, Industrial Forestry Association; Mr. Alan I. Saltman for Mr. Aaron Jones. Gentlemen, thank you for coming. Won't you proceed, please?

STATEMENT OF N. E. BJORKLUND, EXECUTIVE VICE PRESIDENT, INDUSTRIAL FORESTRY ASSOCIATION, PORTLAND, OREG.

Mr. **Bjorklund**. Mr. Chairman, I am Norman E. Bjorklund, executive vice president, Industrial Forestry Association. Our association represents about 90 large-, medium-, and small-sized companies in western Oregon and western Washington, most of whom rely either wholly or substantially on timber purchased from public timber agencies, principally the Federal Government.

I know that earlier this subcommittee was provided with a position paper on a comprehensive relief program which represents a fair measure of consensus among representatives of the Western industry. Our association supports that paper.

I think it is probably important to point out one thing neither our association nor the industry overall has embraced the concept of contract relief easily. However, as it became increasingly apparent that near-term improvement in the markets was unlikely, our association recommended that both the Forest Service and BLM provide contract term adjustments up to 3 years. Subsequently, they did this but for a little different time.

Then when termination proposals were introduced last year, as you well know, our membership opposed them. Later they opposed Senator Hatfield's recommendation for rollback of stumpage prices. Then it became clearly evident that conditions were, and would continue to be, far worse than anybody had anticipated. Our association changed its position to agree to partial termination of purchaser timber under contract to the two agencies and contract term adjustments of up to 5 years on the remaining volume.

I might just comment that I know some of the things that happened that changed viewpoints. One was in 1981 we had members who went out and logged their high-priced timber sales that were going to expire. They suffered. As they said we had a bloodbath. However, then when they came to 1982 the markets were no better, and the prospects were no better. They said we cannot endure another one. If we go through and do the same thing in 1982 that we did in 1981, we will be out of business, and that is not fair to ourselves or our employees or our communities.

In addition, some of the companies who are not involved in public timber sale matters realized that they needed a healthy industry to buy their timber. If they lost that industry they would suffer in the long term. So they realized that some relief was absolutely necessary.

The prospect of massive timber sale contract defaults is very real. The extensions or termination waivers provided last year and early this year by the BLM and the Forest Service are the only reason that such massive defaults have not yet occurred. I will provide an example to show this. On the Willamette National Forest, for example, 73 percent of the volume under contract is estimated at $300 per thousand board feet or more. That volume is uneconomically operable or, I would say, in the future. Only 13 percent of the volume is less than $200 per thousand.

According to the forest's estimates, potential defaults could occur on nearly 200 million board feet between April 1, 1983, and March 31, 1984. Defaults have already occurred on that forest in a number of small salvage sales, and there is a number likely between now and March of next year.

It is highly unlikely that we will see any improvement in markets sufficient to permit this volume to be harvested in time to prevent default. For the purchasers holding these contracts the problems begin well in advance of the default date. While the future of those contracts is in limbo, they cannot plan for their future. They may be reluctant to buy more timber even at current lower prices, and they may be in fact unable to buy timber in any case.

I might expand on that a little bit. While outstanding contracts are in force, the performance bonds required prior to award of the sale are held by the Forest Service. In general, bonding companies analyze the financial condition of a company and any existing bonds before granting additional bonding capacity, which might allow additional timber purchase. There are already cases where bonding companies have refused to grant added capacity purchasers or have actually reduced that capacity. So the purchaser is caught between the proverbial rock and a hard spot. He cannot buy cheaper timber on the current market until he frees bonding capacity, and he cannot free his bonding capacity without harvesting high priced timber under contract that risks insolvency. The only hope then, in my opinion, is for partial termination where he can lower that amount of bonding capacity he is using up.

I am trying to bring out some things that have not been said as much as I go through and summarize my testimony. We feel it is important to point out that not all the high priced timber sales under contract are green—standing timber. Some of it is in salvage sales where the timber is either dead, down, or dying. Some of it is felled and buck timber and some right-of-way timber on sales where the purchaser operated, for example, until he ran out of money to pay for the timber.

On the Willamette National Forest, for example, the Forest Service estimates that 31 million board feet of right-of-way timber alone are in this category and may not be removed. On the Olympic National Forest where they had a series of blowdowns principally in 1979, 80 million board feet of salvage timber are in the same situation and probably will not be removed. As I recall, it is about 40 million in the next year, and there is another 40 million after that.

This material is perishable and must be removed as soon as possible to avoid deterioration which would result in the ultimate loss to the Federal Government. Since it is impossible to move most of this volume at current prices, something must be done and done soon to retain its value.

One way to accomplish this would be to allow the purchaser to terminate the sale immediately and rapidly reoffer it, particularly the salvage portion of it, so that it can be purchased at prices more consistent with the current markets and could be operated.

I have just used two examples, the Olympic and the Willamette National Forests. Almost every other forest in this region has timber in the same category. The Forest Service is helpless to get the timber back on the market and utilized.

I would like to add a very short statement because there has been a lot said about the administration's proposal of solution, which I know shocked us all. To me, as I thought about it, it is like trying to give our industry another way to commit suicide. We have two alternatives we had before. We could operate the high price sales and go out of business. We could let the sales default normally and be driven out of business.

Now they give us another one. Maybe it is a slow poison, but the end result is still the same. The survival of a good share of our membership rests upon the congressional recognition of the current problem and its actions to resolve it. This is made clear. We realize unfortunately that it is entirely up to you people because apparently we will not get very much help from the administration, although I know there are a lot of people in the administration who appreciate our problems. They have the facts and figures to show that it can be resolved without hurting the Government and our country.

Moreover the fate of many timber-dependent communities also rests in your hands. Believe me there are a lot of them who right now are in very bad condition. I talked with one of our members, the Southcoast Lumber Co. from Brookings, Oreg., and one of the comments of their timber manager was every time he goes down the street he sees another for sale sign on a home. He said that these people are leaving because they do not know if they have a future here.

Besides our industry, there are all kinds of other people. We have heard from people in the retail business, and I know I have had many recent phone calls from people in financial organizations like local banks and insurance companies, from sureties and from equipment companies wanting to know what is the situation in the industry. They have heard a little bit about it. What are the chances? What is going to happen? I said that they are really interested in that. In almost every case they said we have to realize that if the forest products industry goes down they will go down in this area too. Most of them are local companies. So we are talking about the whole economy of the Pacific Northwest is at stake. It is not just one industry or one segment. It is our whole economy.

Believe me. It is in your hands. We are counting on you, and we know it is a difficult problem. However, we will help in any way we can to come up with a solution that will pull our economy back.

Thank you.

Mr. WEAVER. You raise some excellent points which brings us to the key question which I suppose no one can answer at this moment. That is, with the announcement yesterday and today of the administration's policy, what will be the attitude of the timber purchasers? What will they do now on sales? What can they do now on sales? You have raised both of those points, and I think that is a really critical consideration.

Mr. BJORKLUND. I think they are going to be like the people who were here—shocked as they hear what is going on, wondering.

Maybe there is some hope, but it happens to be that it is a hope of Congress. It is going to be difficult if the administration opposes it all along.

Mr. **Weaver**. I understand that. However, what I mean is, translating these attitudes into whether they buy timber, whether they continue to operate. This is going to be the critical thing.

Mr. **Bjorklund**. It certainly is going to put a dismal blanket over the whole prospects of our industry, and some of them, I think, would like to get out of it. It is too late. However, it is not our industry that I am most concerned about really, in a sense. It is the people who are working in our industry, the skilled workers we have who hear about this. They think that if their industry is going to go they will just leave. That is going to hurt us as you mentioned before when markets do come back.

Mr. **Weaver**. What about the pulp and paper mills? We have not had witnesses from them. What is the effect going to be on them?

Mr. **Bjorklund**. As you know most of our pulp and paper mills in the Northwest use chips from various manufacturing plants in their process. An awful lot of those come from the chips from mills, both plywood and lumber mills, that operate on Federal timber. It is going to hurt them. If they go out of business, they are going to have trouble. They would be hurting more than they are now, but their market is down too. Unfortunately that is added to the economic woes of the Northwest.

Mr. **Weaver**. Thank you very much. Without objection a copy of your prepared statement will be inserted in the record.

[The prepard statement of Mr. Bjorklund appears at the conclusion of the hearing.]

Mr. **Weaver**. We will now hear from Mr. Saltman.

STATEMENT OF ALAN I. SALTMAN, REPRESENTING AARON U. JONES, PRESIDENT, SENECA SAWMILL CO., EUGENE, OREG.

Mr. **Saltman**. Thank you, Mr. Chairman.

Mr. **Weaver**. Mr. Saltman, we will put Mr. Jones' statement in the record in full. Will you summarize it, please?

[The prepared statement of Mr. Jones appears at the conclusion of the hearing.]

Mr. **Saltman**. Mr. Chairman, Mr. Jones regrets that he is not able to attend, especially in view of the importance of these hearings.

One point that we did want to state before I summarize Mr. Jones' testimony is that this morning and yesterday Mr. Crowell suggested that the need for new authority from the Congress to handle default damages to grant more time for defaulting purchasers to pay off their damages. I think the record should reflect that this authority already exists. The administration is asking for nothing other than that which it already has in the form of the Federal Debt Collection Act. So the hollowness of what we heard this morning is even more apparent.

Mr. Chairman, I would like to go through in some detail Mr. Jones' statement in view of the fact that he is not here, and I am testifying in his behalf. I will try to skip over those portions which are merely redundant.

We all recognize that the situation in the industry is bad. We are not going to spend time reiterating that. In response to that, these proposals have been made both in the Senate and the House.

As noted above the proposed solutions to the general problem are varied. Therefore, at this point Congress must first note that different problems affect various segments of the industry and recognize that, while the situation is universally bad within the industry, a general solution may solve very little. Congress should also note that some definitive action must be taken now. Every day that passes in this period of uncertainty causes new and unexpected problems to arise.

In the Douglas-fir subregion, which is composed of the western portions of Oregon, Washington, and northern California, outstanding timber sales purchased in previous years are economically inoperable, both today and for the foreseeable future. This is true because of the extreme imbalance between the high fixed prices at which they were purchased and the depressed values at which the finished lumber products from these sales can be sold. Absent a radical shift in the pace of housing construction, something which does not loom on the horizon, markets for finished wood products threaten to remain anemic far into this decade.

Extension of these contracts would do very little in terms of providing relief to the industry, maintaining the stability of the communities in which the mills are located, and generating employment. In fact merely extending these sales will have a severely negative effect on any number of companies presently up against the financial ropes.

The magnitude of the financial crisis facing these firms can be seen in the fact that at prices bid in 1979 the average cost of only a 4-month supply of timber is equal to the average purchaser's present net worth. Since most companies have a 2-year supply of timber under contract, it is clear that absent relief profound losses will be incurred if these sales were to be harvested.

These tremendous losses are presently being viewed as liabilities on the companies' balance sheets by banks and bonding companies amongst others. Thus not only is the ability of these companies to borrow these moneys necessary to sustain themselves affected, but so is their ability to secure the bonding which is vital to continued operation. Absent immediate termination of these sales, the very existence of the companies is in extreme jeopardy as is the existence of the industry as it presently exists in the Douglas-fir subregion.

Moreover, granting extensions does not add the present employment or harvesting levels, especially when the sole reason for granting extension lies in the hope that the market for finished products will soon return to reasonable levels. Rather, based on this premise it would be difficult to deny additional non-productive extensions should the hope for return of the markets not occur.

Accordingly, extensions will also have a serious negative effect on the ability of the Government to manage its timber lands in the sense that certain of these lands which may be in need of harvesting will be locked up for long periods by contracts and thus difficult if not impossible to truly manage.

Furthermore, extensions will only give false encouragement to some companies who will return, as a result, to the practice of bidding for sales at prices beyond the break-even point. Their ostensible purposes will be to bring down their average price of timber under contract. However, by doing so the only thing that will happen is that average stumpage prices will rise while the timber volume encompassed by economically inoperable sales will increase.

The solution that is viable in the Douglas-fir subregion is to, one, grant each purchaser the right to terminate all sales in the subregion, just as Congress did back in 1935 when blanket terminations were legislated.

Second would be to require that each purchaser pay for the cost of reselling up to $10,000 per sale. Three would be to require that any sale not terminated be operated in accordance with its terms without any further emergency type modification or extension.

Mr. Jones would also suggest the use of additional antispeculative measures in the form of devices which would limit allowing companies who are of questionable responsibility into the oral auction phase of the competition. This can be done without the use of prequalification.

In addition he would suggest that there be a repeal of all regulations that permit or encourage nonresponsible bidders to bid up timber sales with impunity. In this regard he would commend to the subcommittee's attention certain Forest Service regulations which encourage companies who are nonresponsible to enter the oral auction, thereafter be found nonresponsible and ineligible for award, and then have award made at the highest bid price offered to the next highest qualified bidder.

In this interrelated circumstance he would suggest a return to the previously used rule where all bids received from any concern which is later disqualified be stricken from the record and that award be made to the qualified bidder which submitted the highest bid at the first bid which exceeded other bids from qualified concerns.

He would also suggest that on a subregion-by-subregion basis as is needed where the average bid price exceeded the average appraised price additional cash deposits be made. In this regard he has indicated a formula approach whereby the cash deposit would go up to as high as 20 percent. He feels that this is only fair in that it would place anti-speculative measures when, where, and if needed.

With regard to other regions the situation in his view is significantly different. Outstanding Federal timber sales in other regions may not be permanently inoperable. He would suggest, however, that there are circumstances which would justify the use of terminations in those regions and would propose that both terminations and contract term adjustments be applied in regions other than the Douglas-fir subregion.

With regard to the scope of relief he takes serious exception to a limitation to those companies showing a need for economic hardship. We are talking about a situation in the industry of the entire industry being in trouble. The present legislation, in his view, smacks of the analogy that the ship has gone down and life boats are picking up survivors with the admonition to take one and leave one. Any attempt at this time to discriminate between companies will ultimately lead to unfairness and litigation.

It is not for unanalogous reasons that the partial nature of the terminations as authorized by the bills would lead him to conclude that enacting this legislation without modification would again generate unfairness and would not maximize the industry's survival rate. To permit only limited terminations would disproportionately benefit some multi-regional operators to the competitive detriment of the companies, both large and small, which operate solely within the Douglas-fir subregion. That is, a company with Federal contracts both within and without the Douglas-fir subregion, if allowed to terminate a sufficient percentage of its volume under contract so as to liquidate all of its high priced holdings in the Douglas-fir subregion, would have gotten rid of the entire mill stone that permanently inoperable sales represent.

At the same time a company operating sales solely within the Douglas-fir subregion, even if allowed to terminate the same percentage of its contractual holdings, would still be saddled with a monumental potential liability in the form of its remaining high priced sales.

One final point is, as Mr. Jones has indicated on page 10 and thereafter, he does not feel that the cost of this relief—that there is any cost of this relief to the Federal Government when one considers the unlikelihood of the Government's ability to recoup these monies in the form of damages and in the fact that taxpayers will be going off the rolls and recipients of Government payments will be going on the rolls.

Thank you, Mr. Chairman.

Mr. **Weaver**. Thank you, Mr. Saltman. I think that is a very valuable testimony. Mr. Jones in his position on solutions has not changed. I happen to agree with that solution. I happen to agree with the things he said and you have offered for him. What may happen, as he outlines on page 11 of your testimony, is a very knowledgeable understanding of what is likely to happen. I appreciate very much your testimony. It is very helpful. Thank you very much.

Mr. **Saltman**. Thank you, Mr. Chairman.

Mr. **Weaver**. I will now call Mr. John Hall for Mr. William Stimpson of the National Forest Products Association. Mr. Davenport, will you join him, please?

Mr. Hall, won't you proceed?

STATEMENT OF JOHN HALL, VICE PRESIDENT, RESOURCES, NATIONAL FOREST PRODUCTS ASSOCIATION, WASHINGTON, D.C., REPRESENTING WILLIAM H. STIMPSON, PRESIDENT, NATIONAL FOREST PRODUCTS ASSOCIATION

Mr. **Hall**. You have the full statement of National Forest Products Association, which is really repetitive of the material you have heard over the last 2 days. So I would appreciate filing that for the record, and I will comment on administration's proposal on this legislation.

Mr. **Weaver**. Without objection, a copy of Mr. Stimpson's prepared statement will be inserted in the record.

[The prepared statement of Mr. Stimpson appears at the conclusion of the hearing.]

Mr. **Hall**. As you correctly identified this morning, that is simply the contract extensions under the current policies are the only avenue of relief. If the operators cannot meet those terms then default and the resulting damages are appropriate.

The administration announced a plan to seek legislation to authorize the Government to enter into some type of agreements to spread the damages due to the Government out over a period of time with the objective of assuring an evenutal recovery of damages without forcing the defaulter into bankruptcy and to save many businesses.

That position obviously was not made through consultation with anyone knowledgeable about the normal business practices as they apply to our industry. Earlier, Mr. Burrill, Mr. Adams, and Mr. Bjorklund had commented on what might happen to individual companies faced with the difficulty of obtaining additional credit or bonding authority to conduct their business.

There are by the administration's own estimates many hundreds of such companies that will be unable to perform under existing contracts even with the extensions already available through current authority. Their inability to perform may be due to the obligation to harvest uneconomical timber or the imposition of the extension deposits or even just the interest thereon.

A typical purchaser's liability to the Government on default might run about $1 million. Under the administration's proposal, the company, its surety, and the Government might enter into some type of an agreement to phase that million-dollar debt plus interest at whatever the then-current rate is over some period of months or years. The purchaser then would go to its surety, bank, or other source of credit to get backing for a new contract or for funds to pay the extension deposits or interest thereon on some other sale.

The lender or surety looks at the company's total obligations, the other timber sale contract obligations, and using prudent judgment declines to advance the needed funds or to provide the surety bonds. This judgment on the part of the financial community precludes the purchaser from protecting his position on other sales and therefore assures their eventual default.

This process of default, credit, and surety unavailability and further default repeats until there are no more contracts, no more defaults, under the bankruptcy laws no more company, and finally no more obligation to the Government and no collection of damages. There also are no more employment, no more economic activity locally, and no manufacturing capacity to meet the renewed demand.

The entire financial structure of the Federal timber-dependent portion of the Nation—banking, surety, and the States' economy—is condemned to disaster. The committees with jurisdiction over the Nation's economy should go back to the administration and get some clear explanation of how this scenario that I have laid out can possibly be averted by the recommendations of the administration.

Thank you.

Mr. **Weaver**. John, as usual, your statement, your precise and extremely knowledgeable analysis, is most informative. Does the NFPA take a position here, either in opposition to the administration's position or for any of the bills or provisions in the bills?

Mr. **Hall**. Due to the diversity of membership within the National Forest Products Association, we are unable to support the bill which you and Senator Hatfield have championed. We do recommend that the Congress needs to get involved. We commend you and Senator Hatfield for doing so.

On this particular statement today we simply note that the solution recommended by the administration is no solution at all and needs to be discarded.

Mr. **Weaver**. That is a fair statement. Let me ask you this then. Why, in your opinion, are the large timber companies not participating? I assume that they did not appear at Senator Hatfield's hearings, and they did not come to the House hearings. Why do you suppose that is the case?

Mr. **Hall**. I do not know the reasoning for any company's election to appear or not appear. Our association and several of the associations which have appeared before you today do represent large businesses as well as smaller companies, and there is no disagreement within our association as to the statements I presented today.

Mr. **Weaver**. Thank you.

Mr. Davenport.

STATEMENT OF JOHN A. DAVENPORT, INDEPENDENT FOREST CONSULTANT, PORTLAND, OREG.

Mr. **Davenport**. Mr. Chairman, my name is John Davenport, and I am a consulting forester located in Portland, Oreg. For the last year and a quarter I have devoted about 80 percent of my time to studying the timber under contract problem. It involved going through contract-by-contract and analyzing what would happen if various forms of relief were to be granted.

I might mention for your interest that if the interest on Mr. Crowell's proposal were to be paid it would amount to approximately $1 billion a year.

These bills that are before us basically address relief, but it is obvious to me that success hinges on correcting conditions in the past which caused the current situation. The real issue, in my opinion, is bidding excesses. There have been three bills discussed. There is a 40-percent bill. This bill is unfair because relief falls unevenly. One example is Seneca Sawmill in Eugene. If total relief were granted, they would still have 75 million board feet of timber under contract at $300 a thousand. His competitors would have nothing on the books. Southwest Forest Industry would have nothing on the books because they have low-priced timber in other parts of the country that they would use as part of their base.

Another example would be in the upper end of the valley around Salem. They would end up with 160 million feet at $320 while one of their competitors, Boise Cascade, would have nothing. That is not fair.

It is my premise that the way to approach this is to realize that something has changed. In the past we have always thought of ourselves as having a shortage of timber. However, now we are facing a surplus. I would propose relief on the following basis. The last two pages of my statement contain the points that I think are necessary. I think in order to put something together you have to put a package of various things together. I have five points that I think are important.

I feel that an operator requesting termination of any contract entered into prior to January 1, 1982, if he requests relief, must have all his contracts canceled. This creates equity for all because the overbidder will not have his cake and eat it too. He should not be allowed to keep some contracts and get rid of others at his option. If that is done there will be a tremendous volume of timber on the shelf available for sale in the future, and we will truly have a surplus of timber at that point.

If that is done some type of regulation, management of Federal timber must be undertaken so that the Forest Service does not dump an enormous volume of timber on the market, thereby injuring other regions of the country.

The next we have to come to is to deal with the speculative bidder. There have been all kinds of proposals advanced, but in my opinion the only one that is fair and that would really work is to require a substantial downpayment. I am thinking of 20 percent cash on short-term sales on down to maybe 10 percent on long-term large sales.

Furthermore, there must be adopted an enforceable and realistic termination policy. You just cannot go on granting these extensions when, once you do it, you are in trouble.

The final point that has to be brought out here is the roadbuilding payment policy. It is my view that they should eliminate the current purchaser credit road system. What they are talking about now with transferable credits could be much more easily accomplished without any additional costs to the Government, and certainly a much more simplified way would be to establish a fund whereby the fund would be funded through timber receipts, and cash payments would be made to purchasers when they complete their portions of the road periodically, just as they are doing now when they opt for the road and a contractor gets it.

What I am saying really in a way is that the road option should apply to everybody not just the small business so that people will get paid for their roads out of a separate fund.

I also feel that operators who have built roads in the last 5 years and have not earned credit should be reimbursed. As a landowner the Government should pay for permanent roads constructed by operators. These roads become vital to the management of the forest system and provide access for the public.

There is another advantage here that will interest you I am sure. Under the present system the engineers in the Forest Service design and build their roads and take the money literally out of the stumpage. That is hard to find. They tend under those conditions to overbuild the roads. It is easy to do. If there was a cash pot out there that they had to go to to get the money, the inclination then would be that we need as much as we can get, and it is going to be hard to get. They would tend to go the other way on the roads and underbuild them, not build as many, and maybe solve a lot of the problems that some of the Sierra Club have.

The next point is that there may be in the future no-bid sales. If there are, I feel they should be declared surplus to our needs and made available for export after rebidding.

The final point in deference to the South is that I had some dealings with companies in regions 8 and 9. I feel they have a very justifiable complaint about these comparable sales appraisals. The whole country should be on the same appraisal system, and it should be the conversion return analysis that we use on the West.

I have a couple more comments. One is that the administration's position really, in wanting to keep all this timber on the books, makes them just as big a speculator as the people who bid it up. They still think they are going to get the money.

My final comment, Congressman, is that for years now we have heard about scare tactics of shortage of trees and there is not going to be enough to go around and everything else. After looking at all the timber on the books now I have to tell you I think the trees have won.

Mr. **Weaver**. You understand that the same thing has happened for almost every commodity. In the 1970's oil was running out. Now OPEC has cut their production in half. As to electricity, we were going to have blackouts and brownouts in the Northwest. Now it has been announced that we have a 2,000-megawatt surplus that will last for the next two decades.

With the trees, however, these are not going to last. I do not know how many years we will be in surplus in all of these commodities. I think we will be. However, down the road with the populations of the world building, there will come a time again when they will become in an even greater scarce supply.

Now is the time to have wise policies for their use and regeneration. God help us if we do not. Just to give you an idea, as the oil runs out in the next 20 years our whole agriculture is going to have to change. It is starting to change now. We must use this time to develop policies to assure both the maximum amount of timber in the future and the best way of utilizing it. I hope at least that that comes out of this terrible, terrible situation we are in now.

Your suggestions that you made just now I think are excellent, and they are ones that we should certainly consider. I want to thank you very much for the testimony you have given us.

Mr. **Davenport**. I have one comment I want to make before I leave. The reason there is enough oil is that people are using less. The reason there is enough electricity is that people are using less. The reason we have a surplus of timber is because we are only building a million houses.

Mr. **Weaver**. That is exactly right. That is precisely right. I thank you for your testimony.

Without objection, a copy of your prepared statement will be inserted in the record.

[The prepared statement of Mr. Davenport appears at the conclusion of the hearing.]

Mr. **Weaver**. The Chair will call the panel, if indeed you are still here, consisting of Mr. William Dennison, Mr. Ted Turner, Mr. Jim

Hurst, Mr. Scott Robbins, Mr. H. A. Larson, Mr. Wayne Knauph, and Mr. Tim Mueller. We have two of you gentlemen who have been very patient. I appreciate that very much. Won't you identify yourselves, please, and proceed?

STATEMENT OF WILLIAM N. DENNISON, EXECUTIVE VICE PRESIDENT, WESTERN TIMBER ASSOCIATION

Mr. DENNISON. Thank you, Mr. Chairman. I am Bill Dennison, executive vice president of Western Timber Association.

I have tried to cut my testimony down considerably because you have much to do yet.

Mr. WEAVER. Without objection, a copy of your prepared statement will be inserted in the record.

[The prepared statement of Mr. Dennison appears at the conclusion of the hearing.]

Mr. DENNISON. Of the three basic concepts, Mr. Chairman, that have been proposed for timber sale contract relief by industry leaders and others, it would seem to us that modification of purchaser credit procedures seems to be the least understood. We realize that this proposal is not included in Mr. Hatfield's bill, which you introduced, and there are some who believe that such an inclusion is important if a bill is to be passed. There are others who believe that a bill cannot be passed if it is included.

However, our point is that arguments cannot be productive until both sides understand the issue and the facts. So it is with that in mind that I would like to talk a little bit about purchaser credit to gain that understanding for the record.

The proposed changes that we are talking about of course would be for the elimination of ineffective purchaser credit and also would permit the transfer of purchaser credit between forests and as always between purchasers. To develop that understanding, in July of this year we developed a paper that I would like to submit with my presentation as part of the record if I may. It is entitled "Purchaser Credit, a Helpful Tool in Need of Repair."

Basic to this discussion of purchaser credit is a fact that roads constructed for timber harvest are used by many people—recreationists, timber purchasers, fishermen, hunters, berrypickers, and even as access to wilderness areas. Yet it is the timber value that carries the cost of these roads, financing of the roads. Other users are not expected to pay for their share of the road costs at any one particular time.

It is this point that is important when answering those who resist changes in purchaser credit or anything that would assure that purchasers of Federal timber are compensated for construction of permanent improvements of Federal lands.

Basic to the understanding I would suggest, Mr. Chairman, is also why some are proposing these changes. It is an immediate problem and not one that has been tacked on as a rider as some might suggest. Purchaser credit simply is defined as a bookkeeping procedure in which purchasers of Federal timber are compensated for capital improvements that they make on Federal lands.

If time permitted, I would review a chart with you that is attached as a rider, you might say, to an amendment to my presentation. However, I will leave that to your discretion if later you wish to ask any questions about it. It is a bar graph chart.

As you know as effective purchaser credit is earned, it is entered into the timber sales statement of account. This is credit that can be used to meet stumpage charges. Where these costs exceed current timber values, there is an accumulation of excess or unusable purchaser credit. Therefore, the purchaser credit is deemed ineffective. Purchaser credit was made transferable within the same proclaimed for us to help this situation. Several years ago you will recall that Congressman Johnson led that. This is so that the counties would not lose revenue. At that time they would have. However, because of the National Forest Management Act of 1976 that has been changed. So the counties now are insulated and would not lose any revenues if in fact the purchaser credit was transferred.

However, what would happen is that the purchasers would be helped tremendously right now in their cash flow problems if that was deemed possible.

You are aware of the differences between ineffective and effective purchaser credit. You are also aware of the problems that face them today so I will not go into those.

Let me say, Mr. Chairman, in passing however that the proposal to have Forest Service construct roads is not without problems. It is commendable, but there are many who would be concerned about the inflexible time schedules that would be a problem if Forest Service were in charge of building the roads. We need to work toward that end, but it takes a lot of thought and forethought to take care of the problems.

One last issue that I think is necessary that we address is that wilderness advocates have recently alleged that fully compensating timber purchasers for the cost of required construction of national forest system roads would cause road construction in undeveloped lands, areas where presumably roads would not otherwise be built. We have heard both sides of that. Industry is saying just the opposite, and I think that might be the case if moneys, as Mr. Davenport has said, might even make it more difficult to build roads.

However, if the allegation by the wilderness advocates are true they must be basing their arguments on three premises I would suggest. One is that permanent roads could and would be built without seeking to achieve in an economically sound and an environmentally sound manner the management goals and objectives for the national forest system.

Second, I suggest that their argument must be based on the premise that all national forest lands, even those not considered suitable for commercial timber production, will be roaded.

Last, unfortunately they must assume that timber purchasers should not be compensated fully for required construction of roads designed by the Forest Service for more than a 20-year life that are to be used for planning, administration, and protection of all the various resources of the national forests.

I suggest, Mr. Chairman, that those assumptions are without foundation and contrary to fact. Our paper then goes on to tell what some of those laws and regulations are. I will leave the rest for the written record, except for point two. That is the National Forest Roads and Trails Act, which gives a lot of restrictions on standards that sometimes are not followed I might mention. Also there is the Forest and Range Land Renewable Resources Planning Act, as amended, which outlines many constraints. The most important of those are so that they can assure that roads will not be built unnecessarily. It says, "In developing land management plans, the Secretary shall identify lands within the management area which are not suited for timber production, and no timber harvesting shall occur on such lands for a period of 10 years."

To assure cost effectiveness it goes on to say how they will have to develop expenditure comparisons and so on. These details are all required under forest planning, found in 36 CFR, part 219. Mr. Chairman, it is they that will control. Those requirements will control the planning and use of the national forests, and they too were developed with public participation, including detailed comments by those who now suggest that national forests would be misused if timber purchasers were compensated for the required roads they construct to provide permanent facilities for everybody.

Mr. **Weaver**. Thank you, Mr. Dennison. I appreciate it very much. We are going to have a vote shortly, and I would like to finish the hearing.

Mr. **Dennison**. Thank you very much.

Mr. **Weaver**. Won't you identify yourself, please, and proceed?

STATEMENT OF SCOTT ROBBINS, BLACK MOUNTAIN SPRUCE CO., CRAIG, COLO.

Mr. **Robbins**. Mr. Chairman, I am Scott Robbins. I represent Black Mountain Spruce. We operate a small sawmill in Craig, Colo., which employed approximately 50 people. Over 95 percent of our logs come from the national forest lands. Like all sawmills, we suffer under the current economic conditions.

We commensurate with the western mills. The timber sales proposed in this bill will not help our plight. Because of low stumpage rates on existing sales if we terminate any of our sales they would simply be reoffered at close to the current contract price. In our operation there is little room for a downward shift in the cost of stumpage.

We are concerned that if the west coast mills are allowed to terminate expensive sales and harvest lower priced sales, our markets would be further eroded. The proposed termination of timber sales by itself will be detrimental to us. Care must be taken, therefore, to ensure that equitable relief for all sections of the industry be considered.

We do believe, and unfortunately the rest of our panel is not here, that purchasers should be properly reimbursed for work done for the Forest Service under the requirements of the timber sale contract. One of these requirements is the construction of specified roads. In our area permanent roads are constructed to access an area for numerous uses. These roads are designed for recreation, hunting, and management purposes just to name a few, as well as for timber harvesting. Although these roads are designed and used for a number of purposes, they are constructed by timber purchasers. In deficit sales the costs of these roads is borne entirely by timber purchasers. Normally, it takes up to 15 years to harvest the timber adjacent to any particular road in our area as the timber is harvested in a three-stage shelter wood system involving three separate timber sales.

Yet the cost of the road is carried entirely by the purchaser of the first sale in the area. Subsequent timber purchasers enjoyed lower costs if the roads are already in place.

In a depressed lumber market this causes road credits to be ineffective for the timber purchaser. The proposal to eliminate ineffective purchaser credit and permit the transfer of purchaser credit between national forests and purchasers would aid the purchaser in recovering the investment of building multiple use roads for the Forest Service.

We must investigate ways to establish some method to pay timber purchasers for the long-term cost of building roads in deficit sales.

Thank you.

Mr. **Weaver**. Thank you very much. There is a vote on. We are going to have to leave.

Does the gentleman from Washington have any questions?

Mr. **Morrison**. No. I just ask that the record be kept open.

Mr. **Weaver**. Without objection, the record will be held open for 10 days for additional statements by the members or people who might wish to testify in writing.

I want to thank both of you for testifying. We needed to have your points of view on the record. It was essential. I appreciate your coming. Thank you very much.

Mr. **Robbins**. Thank you.

Mr. **Weaver**. There was a paper provided by the Congressional Research Service as a background for these hearings. It is an excellent paper written by Bob Wolf of the Congressional Research Service. Without objection, it shall be made a part of the record.

With that, the hearing is adjourned.

[Whereupon, at 3 p.m., the subcommittee was adjourned.]

[The Congressional Research Service paper appears at the conclusion of the hearing.]

PREPARED STATEMENT OF HON. NORMAN D. SHUMWAY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. Chairman, and members of the Subcommittee, I want to thank you for holding these hearings and for the opportunity to testify on the critical subject of timber purchaser contract relief. These hearings today provide an opportunity for all interested parties to express their views on legislative remedies designed to address the economic crisis in our timber industry.

I am here on behalf of the northeastern California timber industry to impress upon you the urgent need to take necessary action required to help relieve this troubled industry. The recent slump in the forest products market has contributed to a dramatic reduction in timber resource production. For example, the Forest Service estimates that softwood lumber production in California has plummeted 31% between 1979 and 1981. Unemployment has become rampant. In my part of the state, unemployment has reached incredible highs of 29.9% in Sierra County, 19.5% in Lassen County, 25.1% in Siskiyou County, 20.1% in Shasta County, 27.2% in Plumas County, and 16.6% in Amador County. The State Employment Development Department reports that most or all of this unemployment is timber industry related.

Mr. Chairman, the seriousness of this problem to all is apparent. Remedies have been proposed, but none have proven workable. In talking with community leaders during my various trips to California, I have learned that the depressed state of the forest products industry has required them to explore the development of other industries -- industries such as tourism. However, the economic displacement and turmoil involved in this kind of transition may prove to be so costly as to vitiate their attempts to restore economic stability to the local communities.

As I see it, the only long-range solution to this problem is for Congress to pursue measures designed to stimulate the economy as a whole. We can best achieve this goal by reducing federal spending and moving towards a balanced budget, thereby relieving some of the pressures on our financial markets.

However, until the economy has rebounded, the timber industry will continue to suffer. More to the point, and the subject of today's hearings, it is anticipated that many timber companies will be forced into default or bankruptcy in their attempts to meet contractual obligations under the terms of their Forest Service timber purchasing contracts. Contracts that were signed in 1980 and 1981 are now coming due at a time when lumber demand and prices have dropped drastically. The Western Timber Association informs me that there are many outstanding timber contracts which were purchased at such a high price that the 1982 cost of processing a thousand board feet of this lumber is almost twice as much as the anticipated product price. Clearly, the timber companies that own these contracts are in dire need of some form of relief.

I would therefore urge the Subcommittee to give prompt consideration to those proposals which provide for contract relief, yet do it in such a way as not to have an adverse budgetary impact. For example, my constituents have expressed their support for an earlier proposal advanced by Senators Hatfield and McClure that would provide for a combination of contract term adjustment and contract termination. While the implementation of this proposal would entail substantial costs to the federal government, it has not been satisfactorily determined that extension and termination of timber contracts would be more expensive than losses that are anticipated to be incurred by the U.S. Treasury and county governments through contract default and bankruptcies.

The bill under discussion today contains provisions for contract termination and extension, and I would commend the Chairman for making these inclusions. By extending the expiration date for a portion of all outstanding contracts, federal and county revenues will largely be preserved intact. By terminating the remaining contracts and reselling them at a significantly lower price, we can anticipate an increase in timber activity and employment.

Just this last weekend, I visited a mill in Quincy, California that stands to benefit by this kind of timber contract relief. This particular mill has been forced to close down because input costs--including the cost of timber--are so high that the mill can't meet operating expenses. In this case, if the costly timber contracts were to be terminated and resold at a lower price, we could expect the mill to open up again and re-hire those employees that were recently laid-off.

There are, however, other provisions contained in HR 6913 to which I take exception. In particular, Section 2 of this bill grants the Secretary of Agriculture authority to modify or terminate timber sales contracts only in those cases of "economic hardship by the private contracting party." Even though most of these hardship cases can be found in northern California and western Oregon and Washington, I would object to this language and opt instead for a more balanced piece of legislation. In other words, contract relief should apply industry-wide and not only to those companies who can prove "economic hardship."

Awarding contract relief benefits only to so-called "hardship" cases violates our sense of equity and fairplay. Those timber companies that own Forest Service timber contracts should be treated equally across-the-board. The federal government has no right to unilaterally enhance the competitive position of one private company at the expense of another.

Instead of identifying hardship cases for relief, the timber contract benefits included in this bill should be available to all companies in possession of Forest Service contracts. This would maintain the competitive advantage now enjoyed by those companies that refused to partake two or three years ago in the intense speculative bidding for National Forest timber contracts. At the same time, companies that are confronted with imminent financial insolvency would find relief from their contractural obligations. This temporary relief will hopefully carry them through the current economic recession.

The other part of the bill which I have reservations about is the section which provides for contract price rollbacks. It seems to me that modifying the purchase price for select timber contracts would do an injustice to those companies that have gained a legitimate pricing advantage. Moreover, a mechanism already exists in the form of stumpage rate adjustments whereby changes in contract prices are mandated to reflect fluctuations in the forest products market.

Regardless of the specific problems I have with HR 6913, I am pleased that this bill has been introduced with the intent of providing some form of timber contract relief. I would urge the Subcommittee to continue in its deliberations on this subject and to report out necessary legislation as soon as possible. Again, my thanks for this opportunity to appear before you today. I would be happy to answer any questions you may have.

PREPARED STATEMENT OF HON. DON H. CLAUSEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

MR. CHAIRMAN, YESTERDAY, I JOINED A NUMBER OF MY COLLEAGUES IN INTRODUCING LEGISLATION DESIGNED TO ALLEVIATE THE VERY SERIOUS ECONOMIC PROBLEMS FACING THE FOREST PRODUCTS INDUSTRY.

AS YOU KNOW, FISHING, FARMING AND FORESTRY ARE THE HEART OF THE ECONOMY OF NORTHERN CALIFORNIA, JUST AS THEY ARE IN OREGON. OUR CONGRESSIONAL DISTRICTS ARE SIMILAR IN GEOGRAPHY AS WELL AS THEIR ECONOMIC MAKE-UP.

THE RECENT DECLINE IN THE HOUSING MARKET AND RELATED INDUSTRIES HAVE HAD A DEVASTATING IMPACT ON COMPANIES IN OUR AREA WHICH ARE DEPENDENT UPON PUBLIC TIMBER.

I BELIEVE THE CONGRESS CAN AND SHOULD PROVIDE A LEGISLATIVE SOLUTION WHICH WILL PREVENT ADDITIONAL CLOSURES AND BANKRUPTCIES ON THE PACIFIC NORTHCOAST AND OTHER TIMBER PRODUCING AREAS. I JOINED MY COLLEAGUES IN INTRODUCING H.R. 6996 TO PROVIDE A VEHICLE FOR OUR DEVELOPING JUST SUCH A SOLUTION.

OUR FAILURE TO ACT WILL ONLY BRING ECONOMIC RUIN TO COUNTLESS MORE COMPANIES, INDIVIDUAL OPERATORS, AND OUR LOCAL COMMUNITIES WHO DEPEND ON RECEIPTS FROM THE TIMBER SALE PROGRAM FOR A SUBSTANTIAL PORTION OF THEIR BUDGETS. WITHOUT THESE RECEIPTS, OUR COUNTIES WILL BE UNABLE TO FUND THEIR EDUCATION AND ROAD PROGRAMS.

COMPANIES IN MY AREA ARE TRYING TO MEET THEIR OBLIGATIONS TO HARVEST TIMBER UNDER FOREST SERVICE CONTRACTS. THERE IS SIMPLY NOT SUFFICIENT DEMAND TO PERMIT TIMELY COMPLETION OF MANY SALES. IN SOME CASES, I HAVE BEEN ADVISED THAT STUMPAGE RATES ALONE EXCEED THE PRICE TO BE RECEIVED FOR THE LUMBER. THERE IS NO MONEY LEFT TO COVER LOGGING AND MILLING COSTS.

NO ONE BILL WILL SOLVE ALL OUR ECONOMIC PROBLEMS NOR CAN ANY ONE GOVERNMENT ACTION BE BLAMED FOR THE CURRENT CONDITIONS. HOWEVER, OUR LEGISLATION WILL HELP KEEP ALIVE AND INTACT AN INDUSTRY WHICH WE WILL DESPERATELY NEED WHEN OUR ECONOMY DOES TAKE AN UP-SWING AND HOUSING STARTS RETURN TO A MORE NORMAL LEVEL. IF WE ALLOW THE INFRASTRUCTURE OF THE FOREST PRODUCTS INDUSTRY TO CRUMBLE WE WILL NOT BE ABLE TO RESPOND QUICKLY TO A SURGE IN DEMAND FOR LUMBER WHICH I BELIEVE WILL COME.

THE MAJOR PROVISIONS OF OUR BILL ARE ALMOST IDENTICAL TO SENATOR HATFIELD'S BILL, S.2805 AND YOUR RECENT BILL, H.R. 6913. AS YOU KNOW, THE INDUSTRY HAS FOR MANY MONTHS BEEN WORKING WITH SENATORS MCCLURE AND HATFIELD TO DEVELOP A CONSENSUS PROPOSAL. I BELIEVE A CONSENSUS IS STILL POSSIBLE. THESE PROPOSALS WILL PROVIDE A VEHICLE FOR ACHIEVING A UNITED POSITION.

OUR BILL HAS FOUR BASIC PROVISIONS. FIRST, WE PROVIDE FOR TERMINATION OF A PORTION OF TIMBER SALE CONTRACTS BID PRIOR TO JANUARY 1, 1982. SECOND, WE ALLOW FOR UP TO A FIVE-YEAR EXTENSION OF THE TERMINATION DATES. THIRDLY, WE ALLOW MODIFICATION OF THE PURCHASE PRICE OF THE TIMBER SOLD.

Lastly, our bill adds a provision not found in the earlier bills. We call for a Timber Contract Relief Task Force to make recommendations to the Secretaries of Interior and Agriculture on the proper procedures for modification of contracts and to study and report back on the effectiveness of the procedures started. In this way, we hope to involve all segments of the industry both in the upfront work and in a follow-up review capacity. Only the highest degree of involvement by all affected parties will produce the results we are looking for.

I hesitated to sponsor a bill knowing the difficulties the industry has had in gaining a consensus on the specific provisions of a bill. I chose to act for two reasons. First, we are rapidly approaching the end of the 97th Congress leaving little time left. Secondly, our bill is designed to serve as a starting point, or a vehicle for movement toward a final solution. It is not a perfected bill but can be crafted into an appropriate compromise.

Again, I cannot overly stress the urgency of finding a solution. We must act quickly to get our workers back to work and preserve the basic structure of the industry.

I believe we already have some areas of basic agreement. All segments of the industry seem to support termination of a portion of a purchaser's volume under contract. The figure 40 percent has been discussed. While, the bill I introduced yesterday does not include a figure, I believe 40 percent is certainly a figure worth considering.

OUR BILL SETS A TIME CERTAIN OF UP TO FIVE YEARS FOR CONTRACT TERM ADJUSTMENT. THIS PROVISION HAS ALSO RECEIVED WIDE SUPPORT.

PRICE ADJUSTMENTS HAVE BEEN OPPOSED BY SOME PARTS OF THE INDUSTRY AS IT MIGHT FORCE HARVESTING OF TIMBER FOR WHICH THERE IS CURRENTLY NO MARKET. I DO NOT BELIEVE THIS PROCEDURE CAN BE USED INDISCRIMINATELY BUT SHOULD BE AVAILABLE TO THE FOREST SERVICE AND BUREAU OF LAND MANAGEMENT AS ONE OF MANY TOOLS.

ROAD CREDITS AND A "CAP" ON THE VOLUME OF TIMBER SOLD IN ANY ONE YEAR ARE OTHER ISSUES WHICH WILL BE ADDRESSED IN THESE HEARINGS. BOTH HAVE BEEN MET WITH CONSIDERABLE CONTROVERSY. IT IS MY HOPE THAT THESE HEARINGS WILL HELP SORT OUT THE PROS AND CONS OF THESE ISSUES AND SUGGEST SOME WORKABLE ALTERNATIVES.

I COMMEND YOU, MR. CHAIRMAN, FOR YOUR WILLINGNESS TO SCHEDULE THESE HEARINGS AND YOUR COMMITMENT TO FINDING A SOLUTION AS QUICKLY AS POSSIBLE. I SHALL CONTINUE TO BE OF WHATEVER ASSISTANCE POSSIBLE IN THIS EFFORT.

THANK YOU.

REVISED DRAFT
K MYERS H-21
8/17/82 9:00 AM

STATEMENT OF
JOHN B. CROWELL, JR.
ASSISTANT SECRETARY FOR NATURAL RESOURCES AND ENVIRONMENT
UNITED STATES DEPARTMENT OF AGRICULTURE

Before the
Subcommittee on Public Lands and Reserved Water,
Committee on Energy and Natural Resources
United States Senate

Concerning S. 2805 and S. 2818

August 17, 1982

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

Thank you for providing us the opportunity to join the Subcommittee's deliberations on legislation to grant relief to purchasers of National Forest System and public lands timber. The adverse economic situation that a segment of the forest products industry is in today and the intimate role the Federal Government plays in its cause and its potential cure is indeed a complex subject and one that will require our very best efforts. We assure you of our complete cooperation in your deliberations.

I would like to begin my statement with a brief overview of the circumstances which led to the introduction of S. 2805 and S. 2818.

About 25 percent of the timber used to manufacture lumber and plywood consumed in the United States is harvested from Federal lands, nearly all of which is managed by the Forest Service and Bureau of Land Management. These two agencies contract with timber purchasers to harvest timber which has been designated specifically on the ground and on which an appraisal has been made. There is considerable competition for these contracts which are sold by oral auction or sealed bid. Contract lengths commonly range from 1 to 5 years, with an average of about 2 1/2 years. Normally, payment is made before timber is removed from the sale area. The largest volumes of Federal timber are sold in the Far West.

Sales in the Pacific Northwest States and northern California comprise over 60 percent of the average volume of total Federal timber sold annually. Over 80 percent of Federal timber purchases are made by small businesses. These firms purchase over half the volume of Federal timber.

The severe slump in homebuilding since 1979 because of continued high interest rates for long term borrowings has significantly reduced demand for and the prices of lumber and plywood. This in turn has had a direct impact on existing Federal timber sale contracts, creating a situation in which many of these sales cannot be economically operated. The Forest Service has estimated that 88 percent of National Forest timber volume under contract in western Oregon and Washington is at prices above the average purchaser's current break-even point, where the cost of production exceeds product selling value. Additionally, it is estimated that 6 of the 22 billion board feet currently under contract in the three Pacific Coast States could not be operated at even the highest prices the market has ever seen. It is important to recognize also that many mills in this region own little or no forest lands and are heavily dependent upon Federal timber as their source of raw material. This dependency has increased over the past two decades as privately owned mature timber available for purchase has been harvested.

The expectation of the forest products industry, and particularly of those mill operators who owned little or no timber was that, as timber from private sources became scarce, increasing volumes would be made available from the accumulated large inventories of old growth timber on western Federal forest lands, particularly on the Pacific Coast. In fact, Federal timber sales did gradually increase from 1950 until 1969, but have remained virtually at the same level for the last 13 years. This occurred despite the fact that half the standing softwood sawtimber inventory in the United States today is on the National Forests where the inventory approximates one trillion board feet. The timbered portion of the National Forests and their natural growth rates could support a considerable increase in harvest rates. Sale programs in the last decade have averaged only between 10 and 11 billion board feet annually while industry sources argue that a substantially higher level should be sold annually.

Thus, because the Federal Government did not sell timber in volumes sufficient to support existing mill capacity, and there was insufficient volumes of private timber in certain areas, excessive bidding by mill owners occurred with each trying to acquire an adequate supply of raw material. The competition for limited timber offerings has been fierce. The operator with timber under contract at least had a hope of protecting his investment, whereas the one without timber was forced to close his operation and to liquidate his mill facility.

Another cause of the present situation, has been the unremitting inflation of the last 18 years. Timber prices, because of the constraints on supply moved up even faster than the wholesale price index. The inflationary increases in timber prices, plus the obvious demand for new housing as a consequence of population growth and new family formations, played a significant part in causing escalated prices to be bid for available Federal timber.

Still another factor contributing to high bid prices was the uncertainty caused by controversy over designation of additional National Forest System lands as wilderness. Such designations reduced the level of Federal timber harvest, and controversy over management of other roadless areas created concerns by purchasers about future timber supplies.

The continuing low demand for wood products and the housing slump has resulted in a sharp drop in prices bid for Federal timber. During the first quarter of 1980, the average bid price for Douglas-fir stumpage on National Forests in western Oregon and Washington was $486 per thousand board feet. During the first quarter of 1982, this price had dropped to $153 per thousand board feet.

Many West Coast producers have been priced out of the market because they hold contracts on high-priced timber. As demand for wood products has declined, they have been forced from the market place, leaving the reduced demand to be met by those producers who have lower operating costs. In fact, some of the West Coast producers do hold some lower priced timber, so they can continue to operate on a curtailed basis, utilizing only that timber. The same economic law, of course, has operated identically on all other producers for the North American lumber and plywood markets, forcing the least efficient ones in every region of the United States and Canada to curtail production, or to shut down completely.

Because so much Federal timber under contract at high prices is in the Pacific Coast States, the consequences of being an inefficient producer because of high timber prices have tended to center there. Mills have ceased or curtailed operations, their employees have been out of work, dependent communities have suffered, and timber sale receipts to the Federal Treasury and to the local counties have declined. Mill owners have sustained operating losses and have suffered impairment of their capital; they are short of cash, and probably have had trouble repaying loans or getting new ones. Some of the high-priced timber sales will not be operated during the original or extended contract term and will default. The defaulting purchaser will then be liable for damages to the United States, which he may not be able to pay promptly, or ever. The amount of damages is ordinarily determined by reselling the timber, with the original purchaser becoming liable for the difference between the contract value at the expiration date of the original contract and the resale value, plus costs of the resale. Under current policies the defaulting purchaser is prohibited from bidding on the resale.

The Federal timber selling agencies have been acutely aware of the problems experienced by holders of high-priced contracts and have taken a number of steps in the last two years to help alleviate them. Both agencies have granted extensions of termination dates for the contracts. The Forest Service has implemented two such extensions, the first for one year with fairly stringent conditions, the second for two years on condition that interest payments be made on the price for the unharvested timber. The Bureau of Land Management has extended its contracts to December 31, 1983. Both agencies could grant further extensions.

On April 15, 1982, Forest Service timber sale procedures were changed with the objective of discouraging future purchasers from buying and holding large volumes of timber under contract. The Forest Service now requires an advance cash deposit to be made by the successful bidder within 30 days of sale award. The amount of the performance bond has been increased. A system of discounting bid prices to encourage early performance of the contract has been established. And, the purchaser is now required to make a midpoint payment on the contract. Keep in mind that these changes in the way the Forest Service sells timber apply to sales made since April; they are not retroactive. The BLM also changed its procedures and now requires up front payment of 5 percent of purchase price up to a maximum of $25,000. They also require payment of at least 40 percent of purchase price by the end of the second year on a three year contract. They now prohibit purchasers who have defaulted from bidding on new sales until arrangements for payment of damages on defaulted sales are made. Also, it is now required that the maximum required as installment payments be $50,000 instead of $10,000.

Also, the National Forests and BLM in Oregon and Washington rearranged their timber sale program for fiscal year 1982 so as to sell contracts of short term and smaller volumes early this year. This was done to provide operators with an opportunity to acquire volumes at prices which they could operate in the current depressed market for wood products. The desired effect was achieved. Stumpage prices came down substantially, thereby enabling buyers to reduce their overall costs, and providing opportunity for them to return to the market place with at least some manufactured products.

It is imperative that the regular timber sale programs of the Forest Service and the BLM be carried on without curtailment during these difficult economic times. Some portion of the volumes sold can be harvested promptly, thereby keeping mills operating at least part time as the market for lumber and plywood allows. It is also important to assure future timber supplies on a regular basis and in needed quantities to meet increased market demands in the future so that stumpage prices can be maintained at reasonable levels. Availability of lower priced volumes also will permit averaging such volumes against the older, high-priced sales so that the latter volumes can be processed.

The legislative proposals in S. 2805 would authorize the Secretaries of Agriculture and the Interior to reduce prices, to terminate, or to extend certain existing timber sale contracts. S. 2818 would only authorize the Secretaries to adjust termination dates of timber sale contracts in effect prior to January 1, 1982, for a period equal to the original term but not to exceed five years.

Each of these authorizations has advantages and disadvantages, each would be impossible to administer with even-handed fairness, but all would grant a greater or lesser measure of relief to holders of high-priced contracts. Each of the authorizations is opposed by one or another groupings within the forest products industry, unless the authorization is carefully limited in very detailed specifics.

The Administration strongly opposes any rollback of prices on high-priced contracts. Rollback is grossly inequitable; it allows those who purchased the timber at high prices subsequently to enjoy the advantages of holding it without having to pay the agreed price, while those who would not bid the excessive prices have, in many instances, suffered the consequences of not having an adequate timber supply. Further, the objectives of providing employment and receipts to the Treasury and to the counties can be accomplished by continuing the regular sales program so as to get timber into the market at currently operable prices.

Although contract terminations without penalty do make the high-priced timber available again to all prospective purchasers and would permit early operation of the resold timber to occur, terminations totally relieve the original purchaser of his contractual obligations, all at the expense of the United States. In a free market system where mistakes are supposed to be paid for by the person entering into the contract, that form of relief is extremely generous. Therefore, the Administration also opposes the provision in S. 2805 which would authorize contract terminations without penalty. We must make it clear, in fact, that the Administration opposes any legislative remedy which would provide broad general relief, as would S. 2805, to one sector of the economy which is not available to other troubled sectors.

Since S. 2805 and S. 2818 address extensions and adjustments of termination dates, two definitions are appropriate at this point. A "contract term adjustment" under Forest Service timber sale contracts simply extends the termination date of the contract. It is the device BLM has used to lengthen all of its contracts to December 31, 1983. An "extension," as used in Forest Service contracts, requires a reappraisal, possibly leading to a higher contract price, and the imposition of additional obligations.

Forest Service contracts contain carefully drawn provisions prescribing the conditions under which "contract term adjustments" and "extensions" will be available. "Contract term adjustments" are available only as a consequence of force majeure occurrences, not including depressed market conditions. Thus, "extensions" have been the device used to lengthen Forest Service contracts. The Forest Service is constrained from converting "extensions" to "contract term adjustments" both by the provisions of its contracts and by the principle that it cannot modify an existing contract to the detriment of the Government.

Both S. 2805 and S. 2818 would authorize use of contract term adjustments for BLM and Forest Service timber sale contracts. The Administration does not at this point favor legislation which would authorize contract term adjustments. At present, defaults are imminent on no BLM contracts and on only those few expiring Forest Service contracts on which the purchaser is either unable or unwilling to meet the modest conditions for a two-year extension. The Administration presently holds the view that if contracts are not operated within the periods of extension currently available by administrative action that the contracts should be defaulted and that the defaulting purchasers should pay whatever damages may accrue by reason of default. Timber subject to the defaulted contracts should be resold as part of and not in addition to the regularly prescribed timber sale program. In short, since it is impossible in the present situation to treat everyone with fairness and equity, the only appropriate action is not to interfere with the obligations and consequences created by existing contractual commitments.

The Administration does suggest, however, that both the Secretaries of Agriculture and the Interior be granted new authority to deal with defaulted contracts. The Secretaries could be authorized to enter into and to amend agreements with purchasers and their sureties who have incurred obligations for damages by reason of such default. Such agreements could specify the schedule for payment of damages, the rate and schedule for interest payments, the security, if any, to be provided, conditions under which subordination of the security will be granted, and other provisions as the Secretaries and defaulting purchasers and their sureties might agree. The purpose of such authority would be to assure an eventual recovery of damages without forcing the defaulter into bankruptcy. It is not intended that such new authority extend to an individual determination of damages on a case-by-case basis. Rather, the amount of damages would be determined either by resale of the timber subject to the defaulted contract or uniformly applicable rules prescribed by regulations developed by the respective Secretaries under the authority of the new legislation. It is anticipated that the availability of such authority could save many businesses, and could prevent much expensive and time-consuming litigation.

In summary, Mr. Chairman, the Administration suggests legislation to provide authority to the Secretaries providing flexibility to deal with a defaulter's obligations for damages. The unharvested timber will find its way into the market place by being reoffered to other buyers. The obligation of the defaulting buyer for damages will become fixed. The appropriate Secretary, however, rather than implacably pursuing recovery of the amount owed would, in the exercise of discretion conferred upon him, be able to reach agreement with the defaulter and his surety for payment of the obligation on such terms as would allow the defaulter to remain in business. The United States and the counties which share in timber sale receipts thus would eventually recover the original contract price in many cases, although somewhate later than was originally expected.

We believe the recommendation we are making is fair to those sectors of the forest products industry who have opposed any remedy for the purchasers of high-priced timber relieving them of all liability to perform their contracts. Volumes of defaulted timber would be put back on to the market as part of the regular timber sale program, thereby avoiding an over supply of lower-priced stumpage which could result in an undue competitive advantage to its purchasers.

One final point before closing. Since 1974 there has been a provision in the Interior and Related Agencies annual appropriations measure which prohibits the export of unprocessed logs originating from Federal lands west of the 100th meridian. Because of the large volumes of Federal timber under contract at high prices in the West, it is obvious that the holders of such contracts would benefit from access to additional prosective markets for the next six to eight years.

In closing, Mr. Chairman, I thank you for the opportunity to present the views of the Administration on this bill. We look forward to working closely with the Congress as the legislation is developed. I would be happy to answer the Subcommittee's questions.

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Subcommittee on Forests, Family Farms and Energy
Committee on Agriculture
United States House of Representatives

A Statement By

Rexford A. Resler
Executive Vice President
The American Forestry Association

August 19, 1982

I am Rexford A. Resler, Executive Vice President of The American Forestry Association. The American Forestry Association is a national citizens conservation organization formed in 1875.

We appreciate the opportunity to testify on H.R.6913 which would modify certain contractual conditions between the Secretaries of Agriculture and Interior and purchasers of federal timber.

First, I wish to address the unique situation which prompts this and other proposals for legislative relief.

My instincts lead me to believe that contracts entered between buyer and seller--in this case, purchasers of federal timber and the federal government--should not be subjected to tampering in mid-course. Changes of conditions which were understood at the time of sale invariably lead to inequities among parties who were competing under well-established rules. Those rules should not be changed, whether by legislation or exercise of Administration authority, without due regard to the consequences of disrupting a highly competitive market or for the inequities such changes may create among participants. These hearings and others, will no doubt serve to identify those adverse consequences.

Be that as it may, we believe that extenuating circumstances justify intervention to moderate the dire effects coccasioned by economic conditions which few people, if any, could have predicted two to three years ago.

The record is all too clear of excessive unemployment in home building and in the forest products industry; of wide scale mill closures; increasing rates of bankruptcy; and the very real prospects of still greater business collapse, particularly among independent operators. In my 30 years as a forestry professional, I have never encountered the degree of concern, even outright fear, about the immediate future that

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I find today among independent operators and major corporations alike. While one might argue that those who bid, unwisely perhaps, to secure federal timber should now suffer the consequences of their decisions, I would argue that the government was an unwitting partner and in good measure responsible for the circumstances which brought on a major depression in the forest products industry.

One of those factors was uncertainty of supply of raw material. Successive Administrations have considered investments in forest productivity on the federal lands as an expense, not a long-term capital investment. As a result, investments that would produce ever-expanding supplies of federal timber, with full attention to realistic environmental safeguards, has been slighted consistently in Administration budget requests. Much of what has been achieved is the result of Congressional action to rectify the shortcomings of Presidential budget requests. Even so, the National Forest System has been offering timber sales for the past decade below the sustained yield capacity by 10 to 15 percent. And if the proper investments had been made to increase growth, those sustained yield harvest levels could have been steadily increasing.

Add to that reality uncertainty about the availability of federal lands for timber production and other commodity uses, caused by legal and political hassles over the disposition of roadless areas, and one commences to see why competitive bidding got out of hand. I believe Congress must accept a share of responsibility for its reluctance to bite the bullet--to decide what ought to be in the Wilderness System and what ought to be managed for non-wilderness purposes. Only Congress can resolve those issues.

A decade or more of rising inflation built in an expectation that purchasers of federal timber would be able to recoup on the desperation bids they were submitting. Many gambled on the continued effects of an inflationary spiral--and lost.

We have experienced major changes in the rules guiding thrift institutions which has affected the availability and cost of mortgage money. Estimates of annual housing starts for the decade of the 1980's in the range of 2-plus million, projected by both government and private resources, became conventional wisdom and influenced the attitudes and judgments of producers, investors, and market competitors.

As interest rates ballooned to the 20 percent prime rate, and as mortgage money shrunk, housing markets plummeted at unprecedented rates, drying up not only the housing industry but causing a major decline in markets for building materials. The drop in inflation, an event most urgently sought by us all, has exacerbated the serious problems faced by the entire forest products industry. The most serious problems, however, are associated with the federal timber sale contracts in the Pacific Northwest, many of which are economically inoperable under current market conditions, or conditions which may be realistically expected in the next two or three years.

If no action is taken to relieve the current situation, there will be survivors, of course, but I would expect to see a serious decline in mill capacity which would adversely affect consumer prices when the economy recovers and the pent-up demand for housing is released. I would expect to see a substantial consolidation of that production capacity in the hands of fewer large corporations. The high cost of capital will no doubt result in more consolidations over time, but that trend ought not be accelerated by government actions.

Because government policies and actions, or inaction as the case may be, are partly at fault--and because it is in our general interest to maintain a viable and competitive forest products industry--we conclude that some form of government action is not only warranted, it is urgently needed.

The several legislative remedies under consideration in these hearings should provide a basis for positive action. I am persuaded that prompt Congressional action is needed to relieve an untenable situation. Without the Administration's support, nothing of value will be accomplished in a timely manner. I hope that a workable compromise can be struck with the White House that will provide prompt relief.

I wish to comment on some of the remedies being proposed.

Further liberalization of extension policy permissible under the contracts is not likely to help. It will not put people back to work or ease the economic circumstances of timber-dependent communities. It will simply put off the problem a bit longer. Furthermore, by delaying action on extended sales, the orderly development of future sale offerings dependent on access roads to be constructed on extended sales would, of course, be disrupted and delayed. In time, such extended sales could conceivably be operated, but that is a slim reed for a drowning operator.

Price roll-backs, while attractive on the surface and would help those who have contracts, create serious inequities among competitors in the market place. We believe this option to be grossly unfair.

Contract term adjustments going beyond those permitted under the contract requires legislation. Such adjustments have the same drawbacks as contract extensions, that is, putting off the problem until some future time and disrupting orderly development of future offerings. However, term adjustments for periods up to 5 years would permit purchasers to mix high-priced sales with newer and presumably lower priced federal sales, or timber from other sources including fee timber, thereby permitting purchasers to operate those adjusted sales when market conditions improve. So we support the logic of authorizing contract term adjustments under carefully prescribed conditions.

Contract terminations without penalty is a drastic step used only once previously to my knowledge. We came to the conclusion, reluctantly, that contract terminations without penalty are warranted by current dire circumstances. The alternatives of; (1) extensions of time, or (2) damage settlements on expired contracts, will not solve the immediate problem. It is our judgment that some portion of economically inoperable sales should be terminated as the most effective means for: (1) getting inoperable sales back on the market at operable prices; (2) salvaging the investment of the agencies in sales preparation work; (3) avoiding the high cost of damage appraisals and litigation and delay that would be incurred; (4) reducing the prospects of bankruptcies or takeover of independent operators; and (5) hastening the time when out-of-work people in the woods, mills, and dependent communities can be put back to work.

One can argue that the federal treasury would lose income as a result of foregoing damages on terminated sales. The likelihood is that most of the assessed damages would never be recovered anyway. Lengthy litigation would forestall collection under the "best of circumstances" and little is to be gained through bankruptcy settlements. The cost to the federal government of trying to collect those damages, the consequent effects on the general economy, and eventually on the consumer, leads me to believe that the apparent loss isn't worth the chips.

We favor writing off the loss, under carefully defined rules of law, for some appropriate portion of inoperable sales. The conditions should be prescribed in law as opposed to authorizing the Secretaries of Agriculture and Interior to define those rules. If, as we believe, this remedy is warranted as a matter of public policy, then those conditions ought to be defined in law.

We believe that such terminated sales should be metered back on the market as a part of the agencies regular sales program in ways and amounts that do not change or adversely affect markets in other parts of the country. If, as these terminated sales are brought back on the market, the Administration will support the advance preparation of new sales, it would be possible to expand the volume of timber prepared and held "on the shelf" so that for the first time in my recollection, the agencies could respond to surges in demand.

On a related matter of cash flow, discussion has centered around the need for treating earned purchaser road credits as cash, or at least authorizing the transfer of earned credits among sales on different National Forests. We do not favor treating earned road credits as cash whereby credits could be transferred to cover any cash obligation, but we do support the logic that earned credits be transferred to any sale being operated by purchaser to permit recovery of those front end costs. Considering the high interest rates everyone is facing, it makes sense to authorize a means that would permit more rapid recovery of earned road credits. After all, the consumer eventually winds up paying the cost of inoperative capital.

Mr. Chairman, we have reluctantly come to a conclusion to recommend intervention in a free market system. We believe that legislation along the general lines we have discussed, the details of which should emerge from these deliberations, should be tightly drawn, limited in time, and at the earliest possible time, this ailing free enterprise system should be put back on its feet and the legislative "remedies" terminated.

We appreciate the opportunity to comment on this highly complex and controversial situation. We will be pleased to assist in any way we can to find an equitable solution.

THE WILDERNESS SOCIETY

FOUNDED IN 1935

August 17, 1982

STATEMENT OF PETER C. KIRBY, THE WILDERNESS SOCIETY, ON PROPOSED TIMBER INDUSTRY RELIEF LEGISLATION BEFORE THE FORESTS, FAMILY FARMS, AND ENERGY SUBCOMMITTEE OF THE HOUSE COMMITTEE ON AGRICULTURE.

Mr. Chairman, my name is Peter C. Kirby, the Coordinator of the Forest Management Program at The Wilderness Society. The Wilderness Society, a nationwide group headquartered in Washington, D.C., is dedicated to principles of sound and balanced multiple-use management of the nation's forest and range lands and to protection of the unique values of our remaining public wildlands. Assisting in the preparation of the testimony is Al Sample, the forester of the Forest Management Program. This testimony is also being submitted on behalf of the Natural Resources Defense Council, a nationwide group headquartered in New York City, and dedicated to protecting America's endangered natural resources and to improving the quality of the human environment. Its forest specialists include Kaid Benfield in Washington, D.C. and Trent Orr in San Francisco.

We appreciate this opportunity to testify on H.R. 69$_{0}$3, a bill to provide for the termination, extension, or modification of contracts for the sale of federal timber. Our position on this legislation is that we generally support contract termination as the most appropriate relief for the timber companies and communities that are sorely distressed by the sharp drop in housing construction and timber prices. As we will explain, we have no objection in principle to legislation allowing for the termination of existing contracts

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provided that needed safeguards ensure that the relief is economically sound and environmentally responsible.

The conservation community is very sensitive to the economic problems besetting the Northwest because of high interest rates, a collapsing timber industry, and record unemployment. We want to help shape measures that lessen the human and economic impacts of this recession and bring about eventual economic recovery. Our most constructive role in this current debate will be to suggest ways, as noted, that legislation can be improved environmentally and economically. If these improvements are made there can be greater public consensus in support of a bill and a greater likelihood that needed relief can be afforded the Northwest. The following are our major points for improvement of H.R. 6903:

1. There should be a forest-by-forest moratorium on new timber sales in roadless areas until terminated sales in roaded areas are reoffered for sale. Section 2(1) of H.R. 6903, the legislation introduced by Representatives Weaver and AuCoin, authorizes the Secretaries to terminate contracts entered into prior to January 1, 1982. According to the latest estimates, more than 10 billion board-feet are now under contract in Oregon and Washington at prices that make the sales unprofitable to harvest. When these contracts are terminated it makes strong economic and environmental sense that they should be reoffered first before brand-new sales are made available.

From an economic point of view, the terminated sales should be reoffered first because of the obvious cost savings to the government. These sales have already received environmental study; timber volumes and sale designs have already been surveyed, and personnel have already administered the sale at least once. Thus, from the standpoint of efficiency alone these sales should be recycled before new ones are offered. In addition, road access costs, which are one of the single biggest expenses of timbering, would be less for recycled sales in roaded areas than for new sales in areas not presently roaded.

From an environmental point of view, the reoffering of terminated sales in roaded areas will allow for a reduction in road construction mileage needed in the next few years. Road construction is one of the single biggest causes of environmental damage to the National Forests; it often results in serious stream siltation, fisheries and wildlife habitat damage, and visual scarring, among other effects. By selling the terminated sales first, the Forest Service can still offer the timber levels set by Congress through appropriations and cause much less environmental damage.

In addition, roadless areas designated non-wilderness in RARE II would not need to be entered until the terminated sales are all reoffered. This outcome would benefit all parties conferring on wilderness legislation in the Northwest, including the Congressional delegations. They would gain additional time for careful study of areas under consideration.

2. Contract terminations should be the exclusive remedy for uneconomic contracts, not further contract extensions or price reductions. We urge that sections 2(2) and (3) of H.R. 6903, allowing for time extensions and price reductions on existing contracts, be deleted. Contract termination appears to us to be the only remedy that is needed to address the current crisis. If uneconomic contracts are terminated, then the companies now holding them will not face default. And if the contracts are then reoffered, they will be sold at current market prices, allowing for work and employment to resume.

Extensions and price reductions are not needed at all if termination authority is granted and used. Moreover, these additional provisions have the effect of rewarding the speculators who bid up the prices of contracts in the late 1970's. With extensions or price reductions, these speculative bidders get to keep their contracts and profit from them. It is not in the public interest to do so. Overbid contracts should be terminated so that all qualified firms can re-bid.

3. Conservation groups strongly oppose any uneconomic and environmentally-damaging road credit provisions being added to this bill. Pre-introduction drafts of relief legislation in the Senate contained a variety of provisions extending virtually limitless benefits to timber companies for the construction of roads to service timber sales. Under current law, the federal government reimburses timber companies for the costs of building timber-sale roads, but not for road costs beyond the value of the timber. Earlier drafts of this relief legislation would have changed the law to give timber contractors credit for all road construction costs, regardless of the value of the timber. Among our economic and environmental objections:

* The change in law would allow for an undisguised and uneconomic raid on the federal Treasury by the timber companies. Under present law, if a sale has $50,000 worth of timber, the company gets no more than $50,000 in reimbursement for road costs. If the law were changed as proposed in earlier drafts, the company could be reimbursed for $150,000, let's say, for costs in reaching this $50,000 worth of timber. The Treasury would, in effect, be paying timber companies to take federal timber for free. In our hypothetical case there would be no receipts (or only nominal amounts) going to the Treasury for the $50,000 worth of timber and $100,000 in revenues being taken from the Treasury because of the road construction subsidy. Even though road credits effectively take money from the Treasury, they are not treated as appropriations by Congressional appropriations committees. Hence, the change

in the law to allow all road costs to be reimbursed would allow for a major and unscrutinized drain on the Treasury.

* The change would reverse past efforts by Congress to bring economic common-sense to federal timber management. Section 6(k) of the 1976 National Forest Management Act directs the Forest Service to consider economic efficiency in making timber sales and investments. Limitless road credits, not even subject to the appropriations process, would remove major disincentives for the agency in pursuing highly uneconomic sales in remote areas. Section 6(k) of a basic forestry law could be subverted without Congress even knowing it.

* The change would draw demand for timber to the National Forests and away from private lands, which are generally more accessible and productive. Private landowners do not receive federal subsidies to road their lands for uneconomic timber sales. If limitless road credits are allowed in National Forests, companies will very logically look first to buy from the federal government, to the unfair disadvantage of the private landowners.

* Limitless road credits could disqualify millions of acres from deserved classification as wilderness. As we have explained, this change would threaten remote and inaccessible areas with heavily-subsidized road-building. Not only would the Treasury be the loser, but the many natural values of these wild places would be needlessly sacrificed.

* Lastly, this is not the first time that this type of road construction subsidy has been before Congress. Senator McClure introduced a similar provision in 1975 (S. 364) only to have it rejected by the fiscally conservative Ford Administration. This revived proposal should not be accepted in 1982 as an addition to needed contract termination legislation. It is not related to the effects of the current recession and would cause wholly unacceptable economic and environmental consequences.

In sum, Mr. Chairman, The Wilderness Society and NRDC recognize fully the severe economic problems that the sponsors of H.R. 6903 have addressed. We hope that our suggestions for improvements, if adopted, will widen the base for its support in Congress and among the conservation community.

THE WILDERNESS SOCIETY

FOUNDED IN 1935

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August 26, 1982

The Hon. James Weaver
United States House of Representatives
Washington, D.C. 20515

Dear Congressman Weaver:

On August 18, 1982 the Wilderness Society testified at hearings of the Forestry Subcommittee of the House Agricultural Committee, which you chaired, on H.R. 6913. H.R. 6913 would provide for contract relief for purchasers of national forest timber. During our testimony we stated our strong opposition to provisions for the validation of "ineffective" timber purchaser road credits and their transfer between national forests and between timber purchasers. At this time we would like to supplement our testimony with the following details of our opposition to these provisions and specific responses to points raised by timber industry testimony and submissions. We request that this supplement be made part of the hearing record.

Under current law, purchasers of timber sales receive credit for road construction costs only up to the appraised value of the timber in the sale. In other words, if a timber sale is valued at $100,000 and the estimated cost of the road required to access the sale is $110,000, the purchaser is relieved of paying the Forest Service the $100,000 for the timber but is not credited for the additional $10,000, termed an "ineffective road credit" (additional payment of

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minimal "base rates" for the timber must also be paid by the purchaser in cash). Such timber sales are known as "deficit sales" and are offered by the Forest Service only at the specific request of a timber purchaser.

In 1975, legislation was introduced by Senator McClure that would have made all road credits "effective", meaning the Forest Service would be responsible for all road construction costs regardless of the value of the timber involved. Relating this back to our previous example, the Forest Service would not only forego the $100,000 in receipts for the timber it was selling but would actually pay the purchaser $10,000 in credits it could use on other national forest timber sales. Incredibly, this 1975 proposal would have been retroactive to 1965, requiring a massive governmental cash giveaway to past purchasers of hundreds of national forest timber sales. The measure was rejected by the Ford Administration.

In the pre-introduction drafts of the 1982 relief legislation, proposals for full road cost reimbursement were again put forward. In addition to the provisions of the 1975 proposal, the draft would also allow the road credits to be fully transferable between national forests and between timber purchasers. This would allow integrated forest products corporations that operate in several regions of the country to accumulate road credits in marginal timber growing areas like the Rockies and use them to pay for timber in more productive areas such as the Pacific Northwest. It would also allow the brokering of road credits between companies, much like the brokering of tax credits under the 1981 tax legislation and with many of the same negative impacts on the federal treasury.

Road credit provisions have not been included in H.R. 6913. As we noted at the hearing, the conservation community is opposed to the addition of road credits provisions to timber relief legislation. Our testimony has outlined our major reasons for opposing the road credits changes. These include:

* the tremendous fiscal impacts of further increasing an already substantial public subsidy to the timber industry;

* the removal of major disincentives to pursuing highly uneconomic timber sales in remote areas;

* the increase in roadbuilding into presently roadless areas of the national forests, disqualifying them for any possible future consideration as wilderness;

In defense of the road credits provisions, timber industry representatives have stated that:

1) road building in marginal lands of the inland region will be limited because "the government will have to, in one way or another, more fully pay the cost of these roads;" (p. 17, statement of Industrial Forestry Association, et al) and,

2) various legal constraints will allow only for road construction in an "economically sound" and "environmentally- appropriate" manner. (p. 3, statement of Western Timber Association)

These statements and assurances do not hold up under careful analysis. Here is our point-by-point rebuttal:

1. There is little reason to believe that funding the entire cost of road construction from the Forest Service's timber purchaser credits fund will in any way hinder future roadbuilding. In FY 1982 the Timber Purchaser Credits fund was made an off-budget item. As such, expenditures are not tallied into the total budget picture and are not reflected in the level of the annual budget deficit. Although the appropriations committees can recommend a "cap" on timber purchaser credits, there is little incentive for them to hold the line on these expenditures since a high level will have no more effect on the budget deficit than a low level. In the Administration-proposed budget for FY 1983, the Timber Purchaser Credits fund used exclusively

for timber sale access roads was equivalent to more than 90% of the total construction budget for the entire National Forest System. There is nothing to prevent that figure from growing even higher in the years ahead.

2. Legal constraints are not likely to assure that road building with full purchaser credit will be economically and environmentally sound. Current law is not effective in preventing highly uneconomic timber sales in the national forests. Section 6 (k) of the National Forest Management Act (NFMA) requires the Forest Service to identify lands economically unsuitable for timber production and to remove them from the timber base. However, the Forest Service has not interpreted this to mean that they cannot offer timber sales in which anticipated returns cannot cover the costs. On the contrary, economics is not considered a limiting factor at all and is not a definitive decision element in planning timber sales.

Specifically, the NFMA rules adopted by the Forest Service call for timber lands to be ranked during the forest planning process by the degree of cost efficiency. The designation of lands as "unsuitable" for timber management, however, will be not on this cost efficiency analysis but on how much land is needed to achieve the goals of the forest plan, including timber production. This means that lands with a very low or even negative cost-benefit ratio for timber production may be deemed suitable for timber management in upcoming NFMA forest plans. Laws and policies which permit uneconomic timber sales under such vague regulations as these offer scant protection to the remaining roadless lands on our national forests.

We also cannot assume that adequate environmental protection regarding road building and timber management will be provided in upcoming forest plans. The timber industry points to various sections of the NFMA and its detailed implementation regulations as safeguards against the misuse of our national forests. However, as the Committee is aware, this Administration has targeted the detailed NFMA rules for reform and "streamlining". In our view, the changes proposed in

February, 1982 would weaken the "safety net" of environmental protection in the planning process. If these changes are adopted, the rules would simply clear the way for increases in timber cutting with less consideration and concern for wildlife, wilderness, and public participation in resource decision-making.

In conclusion, current law and Forest Service policies do not prevent uneconomic timber sales on the National Forests. Nor can we be assured that upcoming forest plans will prevent unacceptable environmental impacts from resulting from timber sales in sensitive areas. Thus, we continue to oppose road construction subsidies which will lead to increased timbering in remote, roadless areas. As we have noted, the funding structure for timber road construction is among the most loosely controlled of any area in the federal budget. With the timber purchasers' primary financial disincentive to roading economically marginal areas of the national forests effectively removed, there is every reason to believe such roading would accelerate quickly and significantly. We would urge you to scrutinize closely this complex issue and prevent the proposed changes from becoming part of this or any other legislation. Please feel free to call us if you or your staff have any additional questions.

Sincerely,

Peter Kirby
Peter C. Kirby
Coordinator
Forest Management Program

V. Alaric Sample
V. Alaric Sample, Jr.
Forester
Forest Management Program

TESTIMONY OF TIM MAHONEY

SIERRA CLUB WASHINGTON REPRESENTATIVE

ALSO REPRESENTING THE NATIONAL AUDUBON SOCIETY

Mr. Chairman, my name is Tim Mahoney. I am representing the Sierra Club, a national conservation organization with more than 300,000 members. I am also representing the National Audubon Society, a national conservation group with nearly one half million members. Thank you for this opportunity to testify on H.R. 6913 a bill to provide for the termination, extension or modification of certain contracts for the sale of federal timber.

The Sierra Club and the National Audubon Society have worked since their beginnings to encourage forest practices which will both assure a sustained yield of high-quality timber from our federally-administered lands and protect other values for which these lands are required by law to be managed. Our members throughout the country have worked for years -- and continue to work -- to protect significant roadless areas as wilderness, to protect wildlife values, fisheries and clean water sources. We believe that the maintenance of a healthy timber industry is compatible with our goal of sound forest management. We recognize that the timber industry has been hit very hard by the current recession and believes that the revival of the timber and building industries must be an important element in the recovery of the economy as a whole. At present, our members are working closely with Forest Service personnel throughout the country on individual forest plans to encourage a move away from cutting timber on lands which are economically or biologically unsuitable for timber production. Thus we are examining the legislation under discussion today by asking two fundamental questions. First, will this legislation help timber companies deal with problems related to the current economic climate? And second, how will this legislation affect sound long-term multiple-use management to our federally-administered forests?

With certain clarifications and qualifications, we view the legislation which has been introduced as relatively neutral from an environmental point of view. However, various legislative ideas designed to help the timber industry recover from the present recession have been circulating on the Hill for several months, some of which have contained provisions which could be extremely damaging to the environment. Rather than confine my remarks entirely to H.R. 6913, I would like to address the broader question of timber industry relief legislation and touch on provisions which are not actually part of the three bills which have been introduced (S. 2805, S. 2818, and H.R. 6913) but which were included in earlier draft proposals, and the themes of which will undoubtedly be raised again.

The federal government has already taken steps to help alleviate the economic plight of the industry; both the Department of Agriculture and the Department of Interior have adopted extension policies for companies with federal timber contracts. The agencies already have that authority.

Thus, we do not see an obvious need for Congress to pass legislation regarding contract extensions; the language in Section 2 (2) of H.R. 6913 providing for an extension of up to 5 years beyond the original termination dates of contracts, appears unnecessary. Similar language is included in S. 2818 which goes on to make it clear that penalties would not apply to terminated contracts.

We do not oppose the language in H.R. 6913 permitting outright termination of an unspecified portion of timber sales contracts. We believe that the language in Section 2 of the bill requiring a showing of economic hardship before contract modifications of any kind are permitted is a sound idea, since the federal government must enforce the concept that a contract should be fufilled except in truly dire circumstances.

We do feel that legislative language permitting contract termination should be refined by adding a provision requiring that the same sales that are terminated be re-offered and sold again before any new sales are offered in roadless lands. Such a prioritization policy would have the effect of reducing conflicts between logging activities and the protection of roadless areas. It would also give congressional delegations a greater opportunity to consider national forest wilderness legislation. And it makes economic sense since all the work to prepare for those sales has already been completed.

With the inclusion of such language requiring the re-offering of terminated sales before new sales were offered, we do not oppose legislation permitting contract terminations. This is a legitimate method to help timber firms with federal timber sale contracts get through the recession.

We are, however, very concerned at the language of Section 2(3) of H.R. 6913 which would permit modification of the purchase price of timber sold to reflect present market values for contracts that are not extended. Administratively reducing the prices of timber sales contracts would, in effect, reward companies that speculated on high priced timber during the past several years and, by the same token, would penalize companies which had not overbid on contracts. We believe that, if the Secretaries of Agriculture and Interior were authorized to lower the purchase price for timber sales, there would in fact be very few terminations. As in the case of contract extensions, we believe that outright termination and the later re-offering of the same contracts that are terminated is a much preferable policy, allowing the market mechanism to determine the price. At the very least, if the "roll-back" idea is adopted, a base price should be set to guarantee that costs for site rehabilitation, reforestation and new sales preparation work can be accomplished.

There are several other provisions which, though not included in any of the bills which have been introduced so far, deserve comment because they have been integral parts of debates over the past few months concerning what the elements of timber industry relief legislation should properly be. I want to mention three such ideas now, none of which our organizations believe are related to the current recession and any or all of which we will oppose if they come under active consideration by Congress.

First, some drafts of timber industry relief legislation have contained language which would allow the conversion of "ineffective" purchaser road credits into "effective" credits. This would mean that timber companies would be given credit for road costs in excess of the price of a timber sale. Such a policy would inevitably result in a dramatic increase in bidding for deficit sales, since they would now have a value beyond that of the timber offered. There would be no constraints on timber harvesting due to costs of road construction, and the Forest Service would get into situations in which it would actually have to pay to have timber cut instead of being guaranteed a minimum price. This proposal would thus add to federal deficits.

Another notion which appears in several drafts of relief legislation would permit purchaser road credits to be transferred from one national forest to another, an idea which would benefit large companies with contracts in different regions. The companies would be able to credit the costs of deficit sales in one region against revenues from profitable sales elsewhere in the national forest system. Again, this idea has nothing to do with the current recession and would create incentives to cut timber on unsuitable lands. Both of these issues have been analyzed in a recent Congressional Research Service Report dated June 2, 1982 by Robert E. Wolf. I request that this report be made a formal part of the hearing record.

Finally, earlier drafts of relief legislation have contemplated granting authority to the administering agencies to require a purchaser to perform all or any portion of road construction in terminated sales. Such a policy would set the stage to offer new sales in roadless lands "leapfrogging" over terminated sales and unnecessarily jeopardizing roadless lands.

Mr. Chairman, in summary, the Sierra Club and the National Audubon Society do not oppose legislation which simply allows for the termination of federal timber sales contracts. But such legislation should require the resale of terminated contracts first and should not become encumbered with non-recession-related issues such as road credit conversions or transferability.

Thank you.

NORTH WEST TIMBER ASSOCIATION
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STATEMENT OF
ARNOLD EWING
EXECUTIVE VICE PRESIDENT
NORTH WEST TIMBER ASSOCIATION
EUGENE, OREGON

Before the
HOUSE COMMITTEE ON AGRICULTURE,
SUBCOMMITTEE ON FOREST, FAMILY FARMS AND ENERGY

August 17, 1982

I am Arnold Ewing, Executive Vice President of North West Timber Association. Our membership is located in Western Oregon and Washington. They are all small businesses and are nearly 100% dependent upon the public agencies for their timber supply. Because they must buy all of their timber in public auctions, they must maintain competitive, efficient mills. There has been a constant upgrading of these mills which reflect heavy dollar investments. With these heavy investments it is imperative that a steady source of raw material supply is purchased out ahead. A very reasonable inventory of timber is 2 to 2 1/2 years supply.

As the inflation factors rose to double digit rates, these rates had to crank into the timber bids and compounded annually in order to buy the sale. Continued optimistic predictions by renowned economists also fed the flames of unprecedented bidding. Call it speculative bidding if you will. Most companies so heavily dependent upon the public timber considered it a matter of survival. They had to crank in all of the factors that they could anticipate to develop a bid value projection to fit the anticipated market some 2 to 3 years in the future.

The bidding spiral continued to increase at uncontrollable rates. The Government as well as the purchasing mills were very concerned about the extreme overbids but solutions, at least legal ones, were not forthcoming to take the fever of bidding out of their blood. The crash was inevitable; the recession only changed the time table.

It became apparent some mills were in trouble. The first reaction by most people was "they bid them let em eat them." That quick fix answer was all right until we began to really examine the magnitude of the problems. It then became apparent that something had to be done to prevent a catastrophic collapse of a major source of our industry with wholesale defaults of sales, mill closures, unemployment, and collapse of county receipts.

In the fall of 1981, our association jointly with other Associations developed facts and met with industry groups nationwide to explain the problem. In our research, we found that legislation was passed in 1935 allowing termination of Forest Service sales with no damages. This was based upon the depression of the 30's. We decided this was a reasonable tool to use in this recession. I am aware that the Federal Government considers that nationwide we are still only in a recession. At least in our industry and the housing industry we are in a full blown depression and drastic measures need to be taken now to prevent total collapse of our economy at least in the Pacific Northwest and Northern California.

Our approach was termination of a high Percentage of the sales with immediate resale of the terminated sales hoping this would bring the bid prices in line with the current market.

It soon became apparent that this solution did not recognize the delicate balance that exists nationwide between supply and demand. Other regions immediately became concerned that this could mean an invasion by the Northwest into markets normally supplied by the South, or the Rockies. They felt that if we were relieved of our overburden we would invade their markets.

The inland empire operators were concerned with equity. Termination of deficit sales was not the solution for them. They felt that solving the ineffective purchaser credit issue on deficit sales was a reasonable solution.

The Forest Service has for years required operators to build roads on deficit sales without full reimbursement in money or in kind. In essence, the industry has been subsidizing the U.S. Government in their road construction programs in deficit sale areas.

At the present, the Forest Service fails to recognize that a road built by a timber purchaser has a permanent value over and above just the specific sale. They fail to recognize the value of that road for future sales, for future management of those lands, for future fish and game management activities, for the hunters and fisherman, for all sorts of public recreation and all of the other activities that come under the multiple use concept of managing Forest Service lands.

Making all purchaser credits effective would eliminate the subsidy some of out industry presently pays to the Federal Government. It also provides those operators a means to maintain their historic marketing patterns. All purchaser credits should be made effective on future sales.

The Southern Forest Products Association has a legitimate concern that large volumes of timber would be sold in the Northwest at prices that would afford the Northwest an opportunity to invade their markets. They therefore have suggested a cap. Mr. Williams said in a statement last week to the Senate Agriculture Committee they are considering an agreement which will allow the survival of the Western industry if it does not unnecessarily imperil the survival of the South. This is a reasonable and justifiable concern that we recognize and will support.

We subscribe to those concerns of our industry in the South and the inland empire of the West.

We have worked diligently and with integrity to not tip the delicate scales of supply and demand nationwide at the expense of any segment of the industry. Mr. Chairman we have succeeded by a large majority in arriving at a consensus for the need for relief.

We only have minor differences, primarily a concept of a cap that was so ably presented by Mr. Harry Williams on behalf of the Southern Forest Products Association before the Forestry

Subcommittee of the Senate Agriculture Committee, Thursday, August 12, 1982.

I suggest that legislation should recognize this concern. In line with the broad language concept in Senator Hatfield's bill, I would suggest the following language:

> All terminated and/or defaulted Forest Service timber contracts shall be resold in an orderly fashion and be included as a part of the normal sales program in the fiscal year in which it is offered.

The intent should be clearly spelled out in the Committee Report that dumping of timber in the Northwest will not be done.

Why do we in Region 6 resist a specific cap as suggested by the South?

It is not news that the present lumber and plywood market is terrible. It reflects a depression not a recession and no one sees any substantial change upward in the market for the next two years.

We in the Northwest, just to maintain our limited portion of the market, must operate on timber currently being purchased. Let's be frank. There is some 7.5 billion board feet of Forest Service timber under contract in Western Oregon. Only 8% of that timber could possibly be harvested in the present and projected market for the next two years.

The stumpage prices for the remaining 92% are such that there will be no harvest of the timber under present market conditions.

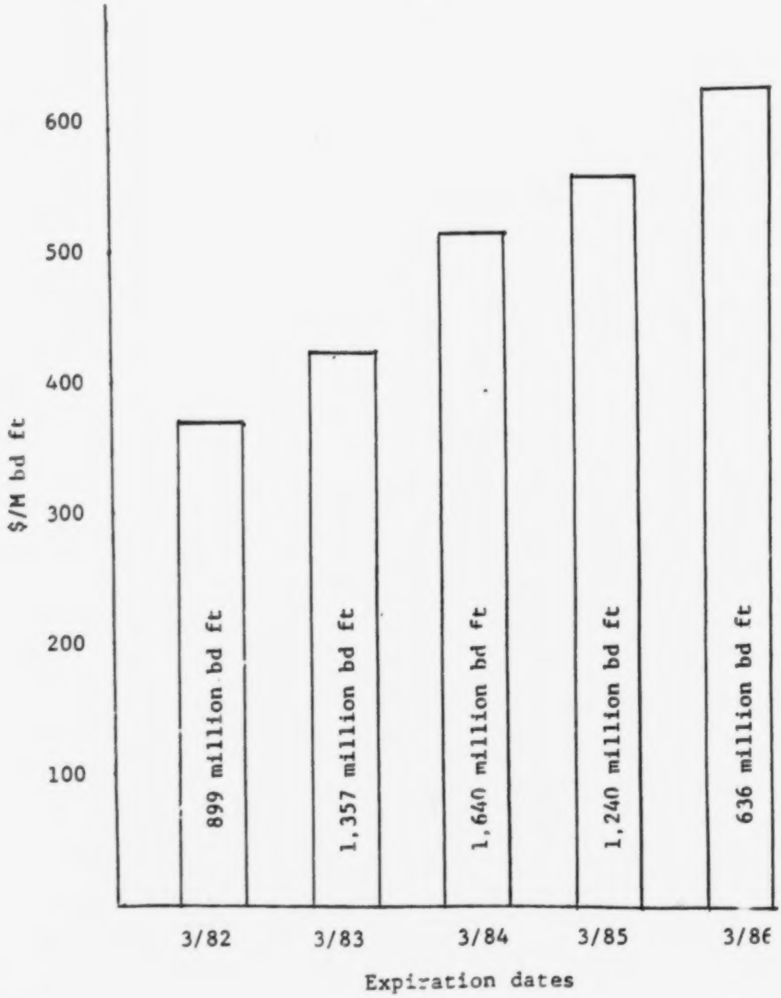
The distribution of the 8% is not evenly divided. Many operators are in the position of having no timber under contract, except current sales, that they can operate. We must have a reasonable sales program to carefully carry the Northwest through these trying times. A lesser volume would result in panic bidding to just get timber through the mills for cash flow purposes defeating the very concept of relief.

What happens if no relief is granted. This 92% will not be harvested during the next 2 years. Limited defaults will occur this fall. In 1983 and 1984, massive defaults on some 3 billion board feet are sure to happen. Without relief of sky rocketing markets, never before experienced, defaults will continue through 1985-1986. The uncontrolled handling of this huge volume will upset national market relationships. There will be job relocation. There will be widespread mill bankruptcies in the Northwest. The counties will suffer even greater than from loss of receipts. The counties do not receive a portion of the damages assessed. Their income is only derived as a percent of timber actually harvested.

There is only one way to solve this dilemma. That is legislation allowing termination, and providing time to meter the remaining overburden back into the market at some future date, provide equity by making ineffective purchaser credits effective on future sales, and making sure that the delicate balance of nationwide markets are not overturned by dumping additional timber volume in the Northwest.

Time is of the essence. Relief is needed now.

AVERAGE DELIVERED COST OF U.S.F.S.
TIMBER, WESTERN OREGON, BY
EXPIRATION DATE (No extensions considered)

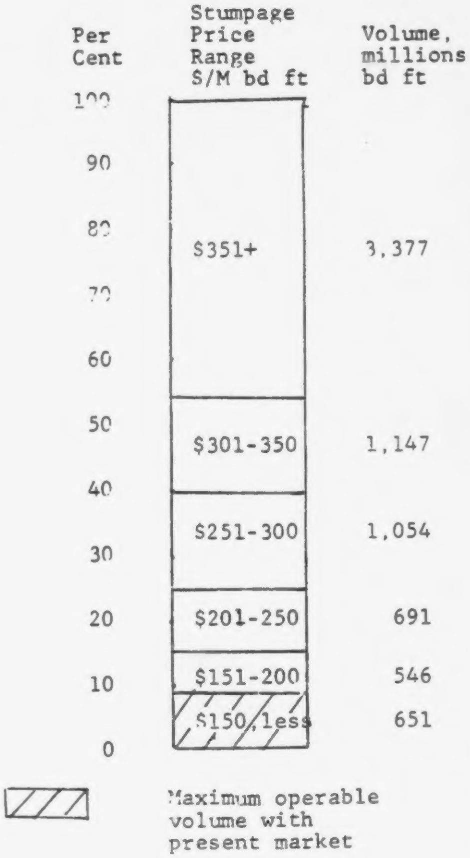


REMAINING VOLUME UNDER CONTRACT BY PRICE

FOREST SERVICE - WESTERN OREGON

9/30/81

Stumpage Price Range $/M bd ft	Remaining Volume Millions bd ft	Remaining Volume Per Cent
n/a	7	.1
1-100	261	3.5
101-125	144	1.9
126-150	240	3.2
151-175	215	2.9
176-200	331	4.5
201-225	286	3.8
226-250	404	5.4
251-300	1,053	14.1
301-350	1,146	15.4
351+	3,378	45.2
Total	7.467	100.0



STATEMENT OF MICHAEL E. BURRILL, PRESIDENT
EUGENE F. BURRILL LUMBER COMPANY, MEDFORD, OREGON, AND
PRESIDENT, NORTHWEST TIMBER ASSOCIATION, EUGENE, OREGON
BEFORE THE U.S. HOUSE OF REPRESENTATIVES, AGRICULTURE
COMMITTEE, FOREST SUBCOMMITTEE
AUGUST 16, 1982

INTRODUCTION

Mr. Chairman and Members of the Committee:

My name is Michael Burrill, President of Eugene F. Burrill Lumber Co. in Medford, Or. I am also currently the President of the Northwest Timber Assn., a trade association of independent lumber and plywood manufacturers in Western Oregon and Southwestern Washington.

I will speak in both capacities today.

EFBLC is a small business, family owned sawmill specializing in high quality 2x4 studs for the homebuilding industry. My father started the company 40 years ago this September and we have been continually moderninzing until we believe we have one of the most efficient and up-to-date mill in the business. We purchase timber from the Medford District, BLM; Rogue River Nat'l Forest & Winema National Forest in Southern Oregon and the Klamath Nat'l Forest in Northern California. We operate in a fairly broad geographical area because of the need to select those limited number of sales that fit our specially designed operation. Our white fir studs require a certain type of log.

To keep our mill operating, we must be highly competitive in our bidding, trade logs with other mills and maintain a large inventory. We do not own private timberlands for an alternate source of supply. Just to stay in business these last few years, we had to purchase timber at price levels that are no longer economically viable. In this respect, we are no different than the other 30-40 members of NWTA. It is an economic fact of life, that if you are a wood using industry and you don't have your own timber, you have to buy it. If you were successful at buying in the past 2-3 years, by today's standards you paid too much. If you felt at least 2 years volume under contract was prudent, you paid way too much. No timber sales we have under contract, other than those purchased this year, even approach the breakeven point.

We currently have about 110 million board feet of timber under contract that was purchased prior to 1982 with all of it unprofitable at todays markets. The original contracts on all but 3 of the 17 sales under contract terminate in 1983. Our company uses about 30 million board feet of timber per year so you can see that the volume under contract would take between 3 and 4 years of normal production to consume. Our industry has been in a deepening recession for 3 years now with no relief in sight. All of these sales were purchased within a logging plan whereby they would have been operated in an orderly fashion. As the recession continued and deepened, even sales currently being purchased in many cases turn from a good sale to a bad sale within 3 to 4 months. Our current delivered log price is currently about 50% of what it was in 1980. Even with these lower priced logs, we find the finished product prices continuing to slip at an even faster pace. The current potential liability on these sales, if we attempted to process the logs or if we defaulted and the sales were resold, would in many cases be in excess of 2 times the total net worth of the company.

To extend the contracts will not make them less expensive and with escalating logging and production costs, it would take years to reach a breakeven point and with many contracts, they would never become profitable.

Many people think that no relief should be given and we should have to honor the contracts to the letter. This problem must be viewed as a total industry problem and the inpacts of your decision must be understood.

To demand that the contracts must be honored, will bring about 2 potential results. The first being that if we assume the operator does operate the sales, he will suffer losses so great that bankruptcy will be the end result for most. The second being, that the operator will not operate the sale and thus default on the contract.

Those timber sale contracts that go into default, will carry with them some interesting consequences. The first point for consideration, is that these contracts can be tied up in the courts for a considerable length of time as the courts decide the final legality of the default procedures. The second point, is that the Federal Government, Counties, Schools, etc. will get no revenue from these sales during that period of time. The third point, is that even if financial claims are made against the purchaser, the Government will probably be able to collect only a small portion of the claim from the purchaser and will have to go against the bonding companies for the balance. The fallout from the claims against the bonding companies will be concellation of many bonds and an unwillingness to issue bonds to any company purchasing timber sales.

In summary, the only answer is termination or a combination of termination and extensions. Without this type of relief, the only alternative is to default. Defaults are expensive. Expensive for both the government and the company defaulting. Attorneys tell us each default could take 3-5 years to settle and then probably at a fraction of the default penalty. In the meantime, timber sales are not operated, jobs are not gained, counties receive no income. All in all it's a dead loss. Termination with resale allows the timber back on the market in an orderly fashion at current market values. The only sales we can operate today are those we purchased yesterday. It is my opinion that the government would receive a net gain through termination.

This is not a bail out. It will cost the taxpayer nothing. If Congress fails to act, it will cost taxpayers in the form of unemployment, lost taxes, lost revenues from timber receipts and the need to pay voluminous attorney fees.

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TESTIMONY OF
SOUTHEASTERN LUMBER MANUFACTURERS ASSOCIATION
ON
H.R. 6913: The Termination, Extension, or Modification of
Federal Government Timber Sale Contracts
Before The
SUBCOMMITTEE ON FOREST, FAMILY FARMS AND ENERGY
Of The
HOUSE COMMITTEE ON AGRICULTURE
in
Washington, D. C.
August 18, 1982

Mr. Chairman and Members of the Committee

I am Bill Harrison, Vice-president and co-owner of Millway Lumber Company, Bradley, South Carolina, a small business lumber manufacturer. Millway Lumber Company has 55 employees and processes approximately seven million board feet of lumber annually. Since my firm purchases national forest timber, I am concerned with the outcome of this legislation.

I am appearing today on behalf of the Southeastern Lumber Manufacturers Association, an organization of 396 small business lumber manufacturers located in twelve southern states. Our member mills collectively produce nearly three billion board feet of lumber annually and all are independently owned and operated. Approximately 45 percent of our members are in close proximity of a national forest and are dependent, to various degrees, upon the sale of national forest timber for the raw materials needed to operate their manufacturing facility.

With me today is Bob Davis, who serves as the Forester for the Southeastern Lumber Manufacturers Association. Together, we will be pleased to answer any questions at the end of this presentation.

BACKGROUND:

In June of 1981, many of us in the forest products industry in the South believed that the lumber industry was not yet on the way to recovery, and operated under that assumption. We continued to purchase timber sales, and some were purchased at a higher price than we would have liked. I do not know of any SLMA member that will go out of business if relief measures are not passed. Keep in mind that many of the mills who purchase national forest timber in Region 8 are as dependent on Forest Service timber as are mills in the Northwest.

Two extension policy relaxations were granted by the Forest Service because of the very dramatic downturn in the housing market. The first extension was given in April, 1980, and the second was granted in October of 1981.

During September, 1981, the first talk of contract relief for the Pacific Northwest was heard in the South. Price roll-back, termination without paying damages, and contract term adjustments were new terms with unclear meaning. By November, two bills had been introduced into the House: The Renewable Resources Emergency Act of 1981 and The Emergency Timber Sale Act of 1981. Both bills were very similar and allowed the termination of any timber contracts within a short period after enactment. To our knowledge no action was taken.

The next three to four months the industry spent most of its time working on a number of proposed Forest Service contract changes. Speculative bidding was the main reason cited for these changes. It was not until April 15, 1982 that the final changes were published. The lumber market was still unchanged.

During the latter part of April, 1982, the industry met in San Francisco, California to review contract relief proposals formulated by the Northwest timber purchasers. Concepts were presented at this meeting, some which I believed the southern industry would have supported and some I was sure they would not. Two weeks later, at my request, a delegation from the Pacific Northwest came to Atlanta, Georgia to explain the necessity of contract relief to the southern industry and what form this relief should take. May and June saw many meetings, compromises, additions, and more compromises. A proposed industry bill was drafted and an effort was made to include all of these additions and compromises.

The industry met again in July to review this draft legislation. This meeting was followed by more meetings which included proposals, counter proposals, and more compromises. That brings us up-to-date.

The Southeastern Lumber Manufacturers Association is opposed to H.R. 6913. We believe this bill is too general and does not give the necessary limits to the authority which can be taken by the Secretaries.

Furthermore, we do not believe that any legislation providing for termination, term adjustments, or price modifications in timber sale contracts can be made equitable for purchasers in all regions. Moreover, if a simple solution cannot be derived that would be in the best interest of the industry and the federal government we believe that nothing should be done. If legislation is forthcoming the SLMA would request that the Committee consider the following comments and recommendations.

RECOMMENDATIONS:

1. We believe that anyone in the forest products industry should have been aware of the downturn in our markets, at the very latest, by June, 1981. As noted previously, contract relief legislation was being considered in November, 1981. For these reasons, we believe it would be unethical to grant relief measures on timber sales purchased after October 1, 1981.
2. Section 2 of H.R. 6913 reads, "Upon a showing of economic hardship by the private contracting party,..." If legislation is forthcoming, we believe that economic hardship must be shown. Guidelines should be incorporated in the legislation defining how hardship is to be determined.

3. The SLMA believes that no more than 25% of the volume held under contract as of October 1, 1981, should be considered for termination. The only exception should be if a purchaser desires to terminate one contract. One contract could be terminated no matter what the percentage of volume under contract. This would allow a purchaser with a large volume and many contracts to decide which of those, up to 25% of the volume, would best serve his firm if terminated. The purchaser who has only two or three contracts of which any one would equal more than the 25% limit would not be penalized. He could terminate one contract.
4. A purchaser who elects to terminate a contract should be liable for the total cost of reselling that contract. Furthermore, he should not be allowed to repurchase the timber in the contract he elected to terminate.
5. The SLMA believes that no more than 25% of the volume held under contract as of October 1, 1981, should be considered for contract term adjustment. Again, the exception should be to allow for a term adjustment on one contract.
6. Currently, the lumber manufacturers in the South are suffering from the importation of Canadian lumber which is being produced by an industry subsidized by the Canadian government. Data from the Council of Forest Industries of British Columbia (Canada) shows that 37% of the lumber sold in my state of South Carolina is from Canada. With very few exceptions, 30% of the lumber being sold in every southern state is from Canada. Markets normally enjoyed by manufacturers of southern pine in Delaware, Vermont, Pennsylvania, West Virginia, and other states are having over 75% of their lumber needs supplied by Canadian manufacturers. I point out these facts only to illustrate that the southern manufacturer cannot endure additional competition from regions benefiting from legislation as being proposed here today. The Pacific Northwest, Forest Service Region 6, is the area which will benefit the most from any forthcoming legislation. Because of this we request that any forthcoming legislation contain provisions which would provide for:

(a) A reduction of the Forest Service timber sale program in Region 6 for the next two years. During the industry discussions a proposal was made to place a "cap" on U. S. Forest Service sales in Region 6 of 4.1 billion board feet in the 1983 and 1984 program year. Also included was a clause that allowed the Secretary to revert to a normal sale program if housing starts reached or exceeded 1.6 million units on an annualized basis for three consecutive months.

(b) The purchaser of any contract granted a term adjustment would be required to systematically operate all contracts bid prior to October 1, 1981.

The intent of these provisions is to reduce the large volume under contract while at the same time not allowing the already depressed lumber market to become flooded with unneeded lumber.

7. Purchaser credit was an item discussed by the industry. In reading the report prepared by Robert E. Wolf, Assistant Chief of the Environment and Natural Resources Policy Division of the Library of Congress, we find an interesting point made concerning purchaser credit.

> "Timber contract termination for high bid sales is not a strong factor in areas where 'ineffective' purchaser road credit prevails; thus, the two legs of the proposal (the industry proposal) are to fashion something attractive to areas where termination would not be of significant value."

Wolfe states later in the report, "The proposal to make 'ineffective' purchaser credit for road construction a guaranteed subsidy for timber is totally irrelevant to the issue of the alleged current conditions of the industry." (underline added)

The industry proposal allowed for several changes in the purchaser credit policy. In addition to making "ineffective" purchaser credit "effective" it allowed the transfer of purchaser credit between national forests. To allow the transfer of purchaser credit between national forests gives those firms that operate in more than one forest a more favorable cash flow over those firms who operate in only one forest. Changing the definition of ineffective purchaser credit would give multi-forest firms an even greater cash flow advantage over single-forest firms, and reduce the amount of revenues received by the federal government for timber sales. The SLMA has and must remain against changing the current purchaser credit policy. We cannot support any legislation which would allow these changes.

CONCLUSION:

The Southeastern Lumber Manufacturers Association believes that Congress while examining means to relieve the distress of the timber industry in the Pacific Northwest should also consider actions to prevent a recurrence of this type situation. We have three suggestions which we believe could be very helpful in that area:

1.) Require sealed bids on all sales.
2.) Require that all sales be "lump sum."
3.) Have the U. S. Forest Service build its own permanent roads and eliminate purchaser credit. Purchasers would build temporary roads only as a part of their logging cost.

I thank you for the opportunity to present our views, and I will be glad to answer any questions you may have.

Statement of
N.E. Bjorklund, Executive Vice President
before the
Subcommittee on Forests, Family Farms & Energy
of the
House Agriculture Committee
on
H.R. 6913
August 18, 1982
Washington, D.C.

Mr. Chairman and members of the Committee, I am N.E. Bjorklund, Executive Vice President of Industrial Forestry Association, headquartered in Portland. Our Association represents large, medium-sized and small companies in western Oregon and Western Washington, many of whom rely either wholly or substantially on timber purchased from public timber sources, principally the Federal Government. In 1980 our members operated 400 manufacturing facilities throughout the Region and employed about 90,000. Since then, employment has dropped due to the general recession in the wood products industry.

You have already been provided with a position paper which represents a fair measure of consensus among representatives of Western industry. Our Association, along with others listed, has agreed in general to the contents of that document. We are in complete agreement with its outline of the history of industry's situation. While the entire industry has been affected by the general downturn in homebuilding precipitated by high interest rates over the last 2-1/2 years, the industry in western Oregon and Western Washington--largely members of our Association--have been most severely affected due to a combination of factors, most of which were the direct result of Federal Government actions over which we have no control. Since the position document accurately and concisely explains those circumstances, I will not belabor them here.

In summary, however, it should be reiterated that most of our members purchased a substantial portion of their current timber two or more years ago from the Federal Government at prices that reflected better market conditions, high inflation and a general concern over the future availability of timber. Then, in 1979, the Federal Government implemented monetary restraints which pushed interest rates beyond the reach of most homebuyers. This, coupled with a general restructuring in the financial community, also as the result of Federal actions to deregulate the financial institutions nationwide, reduced residential construction to post-WWII levels. The resulting impact on wood products markets has been devastating.

To illustrate, the Forest Service recently conducted a review of timber under contract to the U.S. Forest Service in Region Six, which is Oregon and Washington. Using current market values for wood products the agency determined break-even costs and compared them with contracts in the Region. Based on that analysis, the Forest Service determined that a third of the volume under contract in Western Oregon and western Washington is $230 per thousand board feet or more above break-even rates; a third of the volume in Eastern Oregon and Washington is $100 per thousand or more above break-even rates.

But the Region went one step further. They assumed that their break-even calculation was $50 too low. Even with this error assumed, 82 percent of the volume under contract on the westside of the Region would be economically inoperable in any foreseeable market. (That's 82 percent of 12 billion board feet.) Thirty-nine percent of the five billion board feet under contract on the Eastside was in the same situation.

Bid prices on the westside of Region Six have dropped markedly in the last few months. They are now at 1971-72 levels, or just over $100 per thousand board feet, and still falling. Forest Service appraisals have also fallen. [See the attached Forest Service charts.]

I think it is important to point out that neither our Association nor industry in general has embraced the concept of contract relief easily. When the potential defaults surfaced last year, some in our membership were opposed to even the minimal relief of contract term adjustment. However, as it became increasingly apparent that a near-term improvement in markets was unlikely, our Association reluctantly relaxed its long-standing opposition to contract modifications and recommended that the U.S. Forest Service and Bureau of Land Management provide contract term adjustments of up to three years. Both agencies have subsequently provided contract extensions,but for a shorter period than we recommended.

When termination proposals were introduced last year by Reps. AuCoin and Weaver of Oregon, over 70 percent of our membership opposed them. And later, when Senator Hatfield's recommendations for rollback of stumpage prices on BLM contracts were proposed, 60 percent of our membership opposed that approach. I might add that our opposition to stumpage price rollbacks has not been amended.

However, earlier this year our Association changed its position to agree to partial termination of purchasers' timber under contract to the two agencies and contract term adjustment of up to five years on the remaining volume.

I offer these facts to illustrate that industry's position with regard to relief has been gradual and evolutionary. As the prospects for improved markets dimmed, industry's realization of the need for some form of contract relief increased. It is now apparent that we will not see a marked improvement in our economy before 1984, and a recovery which would permit economic operation of much of the high-priced timber under contract is several years away at best.

The prospect of massive timber sale contract defaults is very real. The extensions provided last year and earlier this year by the BLM and the Forest Service are the only reason that such massive defaults haven't yet occurred. However, we are rapidly approaching the day of reckoning. On the Willamette National Forest, for example, 73 percent of the volume under contract is estimated to be $300 per thousand board feet or more. That volume is economically inoperable in any foreseeable market. Only 13 percent of the volume is less than $200 per thousand. According to the Forest's estimates, potential defaults could occur on nearly 200 million board feet between 4-1-83 and 3-31-84. Defaults have already occurred on several small salvage sales and more are expected on additional sales before 3-31-83.

It is highly unlikely that we will see any improvement in markets sufficient to permit this volume to be harvested in time to prevent default. For the purchasers holding those contracts, the problems begin well in advance of the default date. While the future of those contracts is in limbo, they cannot plan for their future, they are reluctant to buy more timber, even at current lower prices, and they may, in fact, be unable to buy that timber in any case.

I would like to elaborate on that last point, because it has not been adequately emphasized. While outstanding contracts are in force, the performance bonds required prior to award of any sale are held by the Forest Service. In general, bonding companies analyze the financial condition of a company and any existing bonds before granting additional bonding capacity which might allow additional timber purchases. There are cases already where bonding companies have refused to grant added capacity to purchasers. Cash and negotiable securities, the only other security which the Forest Service will accept in lieu of a bond, are hardly viable options for many companies in the current economy. The company's only hope, in most cases, is to clear existing contracts by by harvesting timber and thereby increase bonding capacity. But, in many cases, harvesting the high-priced timber under contract would result in insolvency.

So, the purchaser is caught between the proverbial rock and a hard place. He can't buy the cheaper timber on the current market until he frees bonding capacity and he can't free his bonding capacity without harvesting high-priced timber under contract and risking insolvency.

The only hope for these purchasers, in my opinion, is partial termination.

For those purchasers holding contracts which have been extended under agency policy, the costs of maintaining those extensions can also be burdensome, often ranging in the thousands of dollars per month. A capital drain of that magnitude, particularly when there is no offsetting income, can lead to insolvency. For many companies, the day of decision is rapidly approaching. They will have to opt to default on contracts by missing extension payment requirements or risk insolvency. A few in our Region have already gone into default in this manner and more are likely to follow unless something is done soon.

We feel it is important to point out that not all of the high-priced timber under contract is green, standing timber. Some of it is in salvage sales where the timber is either dead, down or dying. Some of it is felled and bucked or right-of-way timber on sales where the purchaser operated until he ran out of money to pay for the timber he was removing. On the Willamette National Forest, the agency estimates 31 million bd. ft. of right-of-way timber alone is in this category. On the Olympic National Forest, 80 million bd. ft. of salvage timber --primarily blowdown--is in the same situation.

This material is perishable and must be removed as soon as possible to avoid deterioration which will result in an ultimate loss to the Federal Government. Since it is impossible to move most of this volume at current prices, something has to be done--and done soon--to retain its value. One way to accomplish this would be to allow the purchaser to terminate the sale immediately and rapidly reoffer it so that it can be purchased at prices more consistent with current markets.

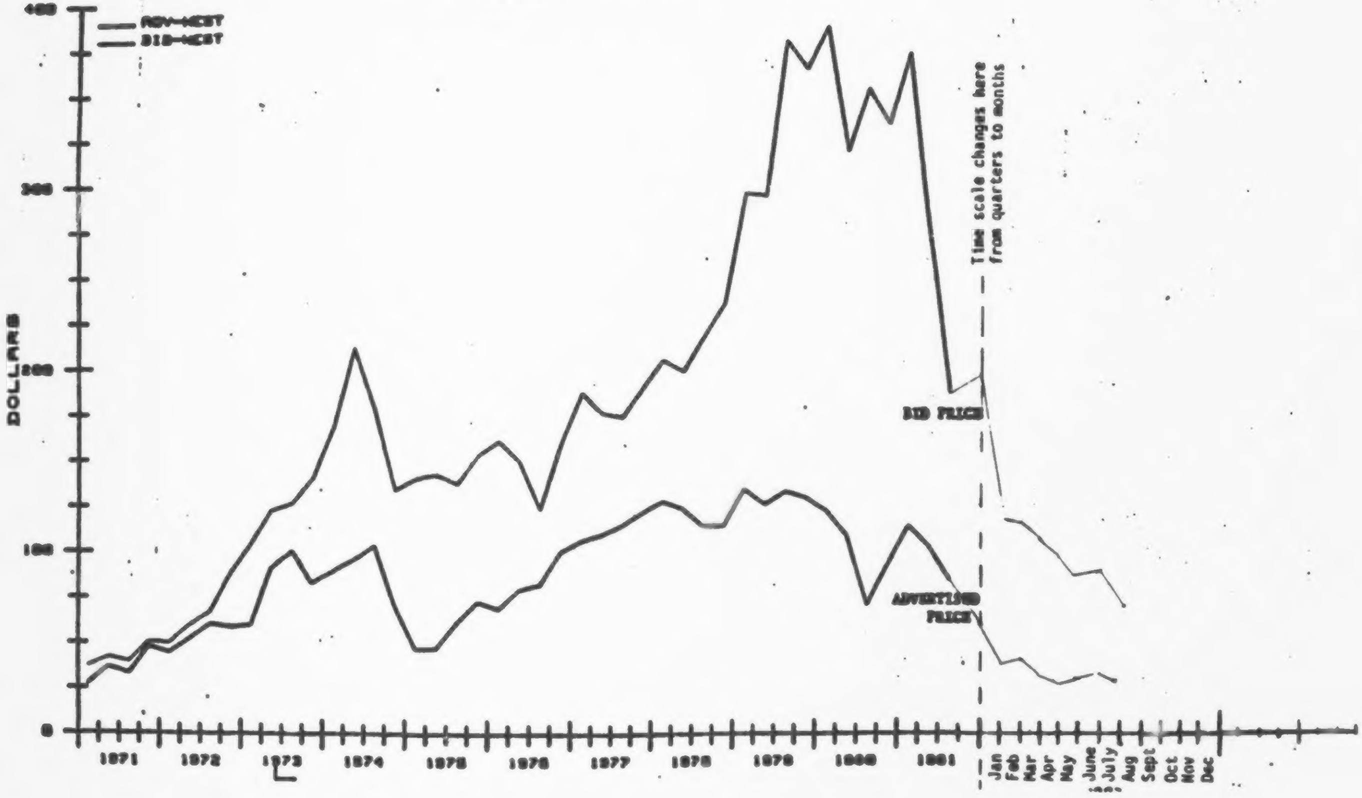
H.R. 6913 ~~2805~~, introduced by Congressman Weaver, offers partial solutions to problems outlined in the position document. But we agree that it is unacceptable as framed. We do support the industry compromise.

S. 2818, introduced by Senator McClure, offers only a delay of the inevitable. Contract term adjustments, as authorized by the bill, would prevent massive defaults in the near future, but would not solve the immediate bonding capacity problems I mentioned earlier. Nor would it provide the means to assure rapid removal of perishable salvage and felled and bucked timber. As it stands, 2818 is incomplete.

The survival of a good share of our membership rests upon Congressional recognition of the current problem and action to resolve it. Without action, we can expect the problem to escalate. While it is true that ultimate relief for our industry will come when interest rates fall to levels that allow more Americans to purchase homes, Congressional action to relieve Federal timber purchasers is essential if industry capacity is to survive to fill that demand for wood. Moreover, the fate of many timber-dependent communities also rests in the hands of Congress. Let me emphasize that this is neither a big industry or a small industry problem...all Federal timber purchasers,regardless of size, are affected. Nor is it a timber industry problem alone. State, county and municipal governments, local wholesale and retail businesses, citizens and taxpayers... all will be impacted by Congressional action or inaction. We ask for your consideration and your compassion.

Region 6 - USFS
Bid Monitoring Report

R-6 - USFS
COMPARISON OF ADVERTISED AND BID STUMPAGE
West Side



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STATEMENT OF JOHN A. DAVENPORT
INDEPENDENT FOREST CONSULTANT

BEFORE THE
HOUSE COMMITTEE ON AGRICULTURE
SUBCOMMITTEE ON FORESTS, FAMILY FARMS AND ENERGY
ON H.R. 6913
TIMBER RELIEF LEGISLATION

August 18, 1982 - Washington, D.C.

Mr. Chairman, members of the Committee, I am John A. Davenport, Independent Forest Consultant located in Portland, Oregon.

The lumber industry of the United States is beset with many problems. The collapse of the homebuilding industry is, of course, the major one. Canadian lumber imports is another. Another separate problem is the enormous volune of high priced timber under contract in Forest Service Regions 5 and 6 (California, Oregon and Washington). These bills seek to address that problem.

Excessive bidding variously described as speculative, cutthroat, vengence, watertable or inflationary occurred primarily during the years 1979, 1980 and 1981. Operators, fearing timber shortages because of the projected high level of housing demands for the 80's together with environmental constraints, bid on timber at bid prices bearing no relation to then current markets. Forest Service timber sale policy encouraged these bidding practices by requiring little or no down payment and allowing 4 to 6 or more years sale length. One timber sale in the Siskiyou National Forest in Oregon was bid to $1,000 per thousand board feet for 12.5 million board feet of Douglas Fir Timber which was appraised at $200.00. In my opinion even if housing roars back to 1.5 million annual starts which is unlikely in the immediate future, that timber sale will still not be operable.

Therefore, I believe that Congress will have to eventually grant some form of relief. Enforcement of the contracts now in existence and collection of damages for defaults would be an impossible task. The Forest Service would have to resell all contracts immediately and then hire more lawyers than foresters to litigate the lawsuits over each contract. Even if the government should with its cases, it could not collect damages, since most of the companies declaring default are facing bankruptcy now. Obviously, no revenue can be derived from bankrupt companies.

H.R. 6913 is a generalized relief package to allow companies showing hardship to have their bid prices lowered. Such a process would create economic chaos in the industry. The government would be better off to cancel all old contracts and negotiate new ones. No one knows how this "hardship" showing would be made.

In my opinion, it seems that the only fair solution for granting contract relief is to insist that any operator requesting relief must submit to the cancellation of all his contracts. Economic survival will compel most contractors to request total relief. Therefore, any bill must direct government agencies involved in the selling of timber to avoid a repetition of the current situation by adopting a reasonable formula for the resale of timber -- not based upon continuing inflation, nor the outmoded theory that the highest bid price brings the greatest revenue. It must be clear that a high bid price which cannot be paid at all is less attractive than a lower bid price which is economically possible to allow the contractor to fulfill.

Proposed legislation might provide a breather for depressed lumber and plywood companies. But there is more at stake than the welfare of individual companies. This legislation will not result in responsible and regular harvest of some timber, and therefore would not necessarily demand that the relieved parties hire workers, develop alternative markets, or pay the revenues so badly needed by local and federal governments.

Any legislation must address all aspects of the present depression in the lumber and plywood industry, and the communities they affect. To be expedient (which may now be the only way to save much of the wood products industry), all contracts could be forgiven - and all resold to those operators willing to live up to the new contract conditions. I specify in some detail certain requirements which should be established in any bill in the addenda following this statement.

There is no point in placing blame in the present dilemma on either the forest products industry or the government. Many laws and governmental policies have led to the current situation. It is essential to solve (if possible), or at least address, the situation so that resale of cancelled contracts in addition to normal timber sales are handled in a rational manner. Any bill should protect the historical share of federal timber without jeopardizing other timber producing regions of the country.

Any proposed legislation must apply to the sensible rehabilitation of not only the forest products companies, but the people and governments who depend upon the orderly functioning and subsequent revenue of a healthy industry. Times have changed - instead of a shortage of timber, there is now a surplus. It is time to recognize the need to adopt a more realistic timber sale policy, which encourages responsible bidding and timber harvest practices.

SPECIFIED REQUIREMENTS

1. An operator requesting termination of any contract entered into prior to 1 January 1982 must have all contracts entered into prior to 1 January 1982 terminated. This creates equity for all because the overbidder will not have his cake and eat it too. He should not be allowed to keep some contracts and get rid of others at his option.

2. A substantial down payment on all new contracts must be made in cash (10 to 20%).

3. Adoption of a timber sale "cap" which maintains the historic federal timber share of the national market over the last 10 years and spreads the cap proportionately over all regions.

4. Adoption of an enforceable and realistic termination policy.

5. A more equitable road building payment policy. Elimination of the current purchaser credit road payment system. Cash payments for completed roads or credits against timber harvested should be the Government's method of payming for permanent roads. Furthermore, operators who have built roads in the last five years and have unearned credits should be reimbursed. As a landowner, the government should pay for the permanent roads constructed by operators.

These roads become vital to the management of the national forest system and provide access for the public.

6. No-bid sales should be declared surplus to our needs by the Secretary of Agriculture, made available for export of logs and rebid.

PREPARED STATEMENT OF WILLIAM N. DENNISON, EXECUTIVE VICE PRESIDENT, WESTERN TIMBER ASSOCIATION

Mr. Chairman:

I am William N. Dennison, Exectuive Vice President, Western Timber Association whose members are significantly dependent upon federal timber for their raw material supplies. Western Timber Association members process more than 80% of the National Forest timber sold in California.

For the past 8 to 10 months many of us have been attempting to develop reasoned legislation to minimize the potential economic disaster facing communities, counties and thousands of families that are dependent upon the timber industry. We have sought to achieve this by minimizing costs to the federal government.

During this past year, county officials, businessmen and families have been watching and waiting for results. The uncertainties have been a strain on everyone and are beginning to cause unnecessary inefficiencies in business operations. Many operators are delaying harvest plans, awaiting decisions on the issues under discussion today. Congressional action is needed now.

Purchaser Credit Proposal Is Misunderstood

Of the three basic concepts proposed for timber sale contract relief by industry leaders and others, modification of Purchaser Credit procedures seems to be the least understood. The proposed changes would eliminate ineffective purchaser credit and permit transfer of purchaser credit between National Forests and purchasers. To develop better understanding, we distributed a discussion paper in July 1982 entitled Purchaser Credit - A Helpful Tool In Need Of Repair. We offer that paper today, along with copies of our presentation, to be included in the hearing record.

I will review briefly the history of Purchaser Credit development, changes made in the 1970's and the reasons additional modification in Purchaser Credit procedures are now needed.

Purchaser Credit History

As early as 1961 industry representatives were seeking major changes that would help assure that they would receive just compensation for roads constructed for timber harvest and consequently are available for all other users of the national forests. At that time, there was no "purchaser credit", and the estimated cost of road construction was a part of the logging costs used to appraise the value of timber. Such costs differed from most logging costs however, in that they were a fixed total prorated to each 1,000 board feet according to estimates of the volume to be removed. Other logging costs, such as hauling, varied directly with volume actually removed. The difficulty in this contractual procedure became apparent as road construction projects became more expensive. Faulty timber sale volume estimates prevented some purchasers from recovering the value of the work expended on the capital improvements.

In 1965, "Purchaser Credit" was included as one of the improvements in the 2400-5 form contract. The timber sale contract today lists the Specified Roads for which purchasers will receive credits for construction. The estimated costs of construction phases (clearing, excavation, etc.) are also listed along with the total amount of Purchaser Credit permitted (Purchaser Credit Limit) under the individual contract. The credit created by road construction or reconstruction is available to pay for any part of the Current Contract Rates, except for Base Rates, Required Deposits (for slash) or any cooperative deposits (erosion control, etc.).

Computation of Purchaser Credit is made monthly based on the Forest Service estimate of the percentage of work completed. As Effective Purchaser Credit is earned, it is entered into the Timber Sale Statement of Account. Effective Purchaser Credit is unused Purchaser Credit which does not exceed Current Contract Value minus Base Rate Value; i.e., credit that can be used to meet stumpage charges. Where timber values are low and road costs high, there is an accumulation of excess, unuseable, purchaser credit.

To help overcome this problem, Congressman H. T. "Bizz" Johnson provided leadership in the 1975 amendment (P.L.94-154) of Section 4 of the Act of October 13, 1964 (Roads and Trails Act). The amendment authorized the Secretary of Agriculture to provide for the transfer of unamortized road costs, earned on one timber sale to another within the same proclaimed National Forest. This was limited to the same forest because at that time counties received in-lieu-of-tax revenues from federal timber harvest receipts based on net receipts (i.e. after road construction costs were deducted). County revenues could be reduced if purchaser credits were transferred to another forest, outside of their county.

Full Protection For County Revenue

County revenue was later given protection which removed the transfer of credits problem. Section 16 of the National Forest Management Act of 1976 amends 16 U.S.C.500 to include "...as moneys received..." the cost of National Forest Transportation System roads constructed under timber sale contracts. The road costs are now part of the revenues shared with the States to provide in-lieu-of-tax payments to the counties.

Deficit Sales Pose Problems

When timber sale values are not sufficient to support the costs of road construction and other requirements, plus a predetermined return to the government, at the time of appraisal, the sale is termed deficit. If there are road construction or reconstruction requirements on deficit sales, the purchaser may receive partial or no compensation for his work. The Timber Sale Statement of Account is not effectively credited for work completed nor can the ineffective Purchaser Credit from another sale be transferred for payment against timber on this sale. The government receives a capital improvement free of charge.

Ineffective purchaser credit can develop after a timber sale has been awarded due to dropping markets and subsequent de-escalation in Tentative Bid Rates. Ineffective purchaser credit can occur just as readily in areas where roads already exist due to lower volumes per acre to be harvested on the second entry and high road reconstruction costs.

This problem is facing many purchasers today. We submit that modification in Purchaser Credit procedures was appropriate even before now, however the economic burdens and especially cash flow problems facing businesses make it more urgent.

Environmentalists Concerns Are Covered By Law

Wilderness advocates have recently alleged that fully compensating timber purchasers for the cost of required construction of National Forest System roads would cause road construction in undeveloped areas "with marginal timber," where presumably roads would not otherwise be built.

This argument apparently assumes:

(a) Permanent roads could and would be built without seeking to achieve, in an economically-sound and environmentally-appropriate manner, the management goals and objectives for the National Forest System and the individual national forests.

(b) All national forest lands that may be made accessible by roads are considered suitable for commercial timber production.

(c) Timber purchasers should not expect full compensation for the required construction of roads designed by the Forest Service to serve for at least 20 years the planned use, administration and protection of all the various resources on the national forests.

Such assumptions are without foundation and are contrary to fact. If timber purchasers were to be fully paid for the road building they must do under Forest Service direction, the public interest would be protected. Federal laws and regulations require the Forest Service to develop and plan to achieve said goals and objectives with public participation and use of a systematic interdisciplinary approach. Consider the following constraints in law:

National Forest Roads And Trails System Act

* The Act of October 13,1964 declares: "The Secretary is authorized to provide for the acquisition, construction, and maintenance of forest development roads...in location and according to specifications which will permit maximum economy in harvesting timber...tributary to such roads and at the same time meet the requirements for protection, development, and management thereof, and for utilization of the other resources thereof." (16 U. S. C. 535)

Forest and Rangeland Renewable Resources Planning Act

* The Act of August 17, 1974,as amended, states: "The Congress declares that the installation of a proper system of transportation to service the National Forest System...shall be carried forward in time to meet anticipated needs on an economically and environmentally sound basis..."

"Roads constructed on National Forest System lands shall be designed to standards appropriate for the intended uses, considering safety, cost of transportation, and impacts on land and resources." (16 U. S. C. 1608)

"In order to provide for periodic review of programs for management and administration of the National Forest System...the Secretary of Agriculture...shall prepare and transmit to the President a recommended Renewable Resource Program (hereinafter called the 'Program'). The Program...shall provide in appropriate detail for protection, management, and development of the National Forest System, including forest development roads and trails... The Program shall be developed in accordance with principles set forth in the Multiple-Use Sustained-Yield Act of June 12, 1960 (74 Stat. 215; 16 U.S.C.528-531), and the National Environmental Policy Act of 1969 (83 Stat. 852; 42 U. S..C. 4321-4347)." (16 U.S.C. 1602)

* "As part of the Program...The Secretary of Agriculture shall

develop, maintain, and, as appropriate, revise land and resource management units of the National Forest System...

use a systematic interdisciplinary approach to achieve integrated consideration of physical, biological, economic, and other sciences...

provide for public participation in the development, review and revision of land management plans...

assure that such plans...provide for multiple use and sustained yield of the products and services obtained therefrom in accordance with the Multiple-Use Sustained-Yield Act of 1960, and, in particular, include coordination of outdoor recreation, range, timber, watershed, wildlife and fish, and wilderness...

promulgate regulations, under the principles of the Multiple-Use Sustained-Yield Act of 1960, that set out the process for the development and revision of the land management plans...

"Resource plans and permits, contracts, and other instruments for the use and occupancy of National Forest System lands shall be consistent with the land management plans...

"In developing land management plans...the Secretary shall identify lands within the management area which are not suited for timber production, considering physical, economic, and other pertinent factors to the extent feasible...and shall assure that, except for salvage sales or sales necessitated to protect other multiple-use values, no timber harvesting shall occur on such lands for a period of 10 years...

"The Secretary shall...formulate and implement as soon as practicable, a process for estimating long-term costs and benefits to support the program evaluation requirements of this Act. This process shall include requirements to provide information on...estimated expenditures associated with the reforestation, timber stand improvement, and sale of timber from the National Forest System, and shall provide for a comparison of these expenditures to the return to the Government resulting from the sale of timber..."(16 U.S.C.1604)

* "'Multiple use' means the management of all the various renewable surface resources of the national forests so that they are utilized in the combination that will best meet the needs of the American people; making the most judicious use of the land for some or all of these resources or related services...without impairment of the productivity of the land, with consideration being given to the relative values of the various resources...

"'Sustained yield of the several products and services' means the achievement and maintenance in perpetuity of a high-level annual or regular periodic output of the various renewable resources of the national forests without impairment of the productivity of the land." (16 U.S.C.531)

* "[I]t is the continuing policy of the Federal Government...to use all practicable means and measures...in a manner calculated to foster and promote the general welfare, to create and promote conditions under which man and nature can exist in productive harmony, and fulfill the social, economic, and other requirements of present and future generations of Americans." (42 U. S. C. 4331)

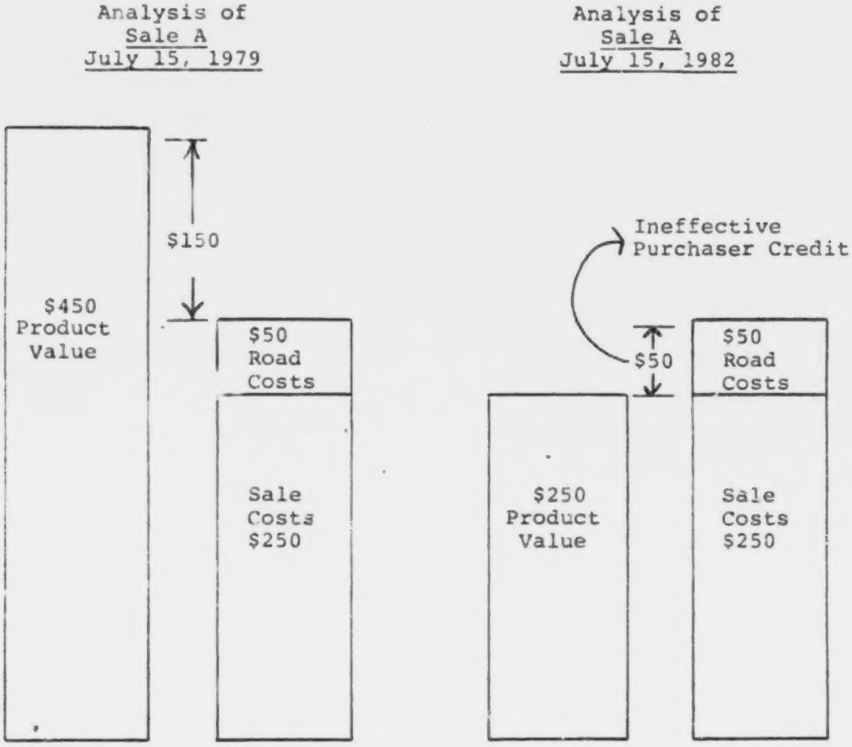
These detailed requirements in the law are supplemented in much greater detail by approximately 16,000 words of planning regulations included in 36 CFR Part 219. They will control the planning and use of the national forests, and they too were developed with public participation—including detailed comments by those now suggesting the national forests would be misused if timber purchasers were compensated for the required roads they construct.

We hope the Congress will judge these allegations on their merits and treat timber purchasers with equity by removing the need for them to subsidize the transportation system needed for the management of the national forests.

I will be pleased to respond to any questions that you may wish to ask.

* * *

FIGURE I: Example of Effective and Ineffective Purchaser Credit


Analysis of
Sale A
July 15, 1979
Analysis of
Sale A
July 15, 1982
$450
Product
Value
$150
$50
Road
Costs
Sale
Costs
$250
Ineffective
Purchaser Credit
$50
$250
Product
Value
$50
Road
Costs
Sale
Costs
$250

Product Value is $150 in excess of total costs. Therefore all $50 of the road costs are effective Purchaser Credit.

Product Value is $50 less than the total of sale costs and road costs. Therefore the $50 road costs are ineffective Purchaser Credit.

DEFINITIONS

Product Value is the value of the manufactured lumber in the mill yard.

Road Costs are the construction costs required to build the specified roads that access the timber sale.

Sale Costs include manufacturing costs, logging costs, transportation costs, and profit and risk.

PURCHASER CREDIT - A HELPFUL TOOL IN NEED OF REPAIR

by

William N. Dennison
Executive Vice President
Western Timber Association

Recent discussions of proposals to relieve obligations under inoperable timber sale contracts, particularly a recent report from the Library of Congress, have raised questions about the use of Purchaser Credit earned for road construction and its importance to both the government and the purchasers of Forest Service timber.

This paper will review why Purchaser Credit was initiated in Forest Service timber sale contracts, attempts to modify its use and the need for changes now to aid counties, communities, employment and timber purchasers.

In The Beginning—There Was No Purchaser Credit

By the mid 1960's road construction costs were a growing burden for timber purchasers. As early as 1961, however, industry representatives were seeking major changes in timber sale contracts, including the handling of road costs. They emphasized the need to develop an equitable system under which purchasers could be compensated for constructing permanent roads needed for the administration, protection and use of the national forests.

There was no "purchaser credit" for road construction. Estimated cost of road construction was a part of logging costs used to appraise the value of the timber. Such costs differed from most logging costs however, in that they were a fixed total prorated to each 1,000 board feet according to estimates of the volume to be removed. Other logging costs, such as hauling, varied directly with volume actually removed. The problems confronting purchasers were compounded by the fact that road costs were assigned to each species, at the same rate, regardless of product value.

The difficulty in this contractual procedure became apparent as road construction projects increased in work and costs. Faulty timber sale volume estimates prevented some purchasers from recovering the value of the work expended on the capital improvements.

An early example of the problem was the results of a 1955 purchase by Wetsel-Oviatt Lumber Company of a Forest Service advertised 12.8 million board foot timber sale on the Eldorado National Forest. The California based company constructed the required timber sale roads and logged the timber, which scaled only 6.5 million board feet. The result was that the company would lose half the development costs or $21,299.

The Forest Service was requested to mark additional timber to make the purchaser whole. They refused on the basis that there was no more "poor risk" timber in the area. Forest Service then opposed a claim that was sent to the Comptroller General. The claim was subsequently rejected twice.

A private bill, H. R. 7132, was prepared and introduced by California Congressman Harold T. "Bizz" Johnson. During a subcommittee meeting on Claims of the House Committee on the Judiciary, the Congressman told members that Federal government was under a moral obligation to compensate Wetsel-Oviatt Lumber Company for "...losses suffered as the result of a gross error by government officials."

Members of the subcommittee unanimously approved H. R. 7132 after a full review. A favorable report was printed and the bill was passed by both Houses. However, President Lyndon B. Johnson vetoed the bill, apparently on the advice of the Forest Service. The veto message contained some of the same language found in the Forest Service earlier arguments: "To grant relief in this case would be unfair to other contractors who have encountered under-runs in the performance of similar contracts." They acknowledged widespread inequities, however, Wetsel-Oviatt Lumber Company received no compensation for the $21,299 of road construction and the inequities continued.

Minor Modifications Recognized Potential Problems

Sometime after Wetsel-Oviatt Lumber Company purchased the sale noted above, Forest Service began also to recognize potential problems and modified their procedures. They first established guidelines in which the road costs could be written off on the first 80 percent of timber volume and road charges were made against the higher-valued species. Under such a procedure, Forest Service was covered even if timber sale volumes over-ran. Purchaser's losses were insured however, only down to 20 percent under-cut on a timber sale. Many sales in California have been off by that percentage and more. Of course, this procedure would not have solved the Wetsel-Oviatt Lumber Company problem even if it had been included in their contract, since their underrun had been 50 percent.

A problem that has been with us for years is the fact that compensation for road construction work is not always possible on low value timber sales since there must be a charge in cash for a base rate on all timber. The Forest Service attempted to solve that difficulty by permitting the accumulation of road amortization rate deficits and credits during declining markets, when stumpage rates were adjusted downward with the market and there was not enough value to meet road costs. However, the market had to rise before termination of the sale if any of the deficiencies were to be offset by delaying upward escalation of stumpage rates. The attempted patchwork of a poor system did not materially help either industry or the agency at that time.

Time For Change - New Contract Form

As a result of such inequities, industry representatives developed a Four-Point Program proposal in 1961 that was designed to: 1) Assure that Forest Service would sell the Allowable Cut; 2) improve timber appraisals; 3) rewrite the timber sale contract, and 4) develop an equitable appeals procedure. As a part of those discussions, industry proposed that the timber be appraised as if the Specified (permanent) roads were in place. Then, as the purchaser constructed the roads, credit would be given as payment for timber.

In 1965, a new timber sale contract form was implemented after many hours of negotiations between Forest Service and industry representatives and a great deal of individual work on both sides.

One of the many improvements found in the 2400-5 form contract was the establishment of "Purchaser Credit" for construction and reconstruction of Specified Roads. This credit could be used in payment for timber.

The new procedure eliminated the "Road Amortization Rate Deficits" and the need to prorate road costs to individual species for record keeping of road amortization.

The Purchaser Credit concept is still in use today. Tables 9 and

10 in the A Division portion of the contract provide the basis for Purchaser Credit. Table 9 lists the Specified Roads for which purchasers will receive credits for construction. The estimated costs of construction phases (clearing, excavation, culvert installation, etc.) are listed in Table 10, which also shows the total amount of Purchaser Credit permitted (Purchaser Credit Limit) under the individual contract.

The credit created by road construction is available to pay for any part of the Current Contract Rates, except for Base Rates, Required Deposits (for slash disposal) or any cooperative deposits (erosion control, etc.). Industry has objected to this limitation on the use of Purchaser Credit in the past. Their main argument was that money had been expended to provide capital improvements for the government and use by the public. The money spent, if not recouped quickly, is a subsidy to the government by private funds. They argued further that Purchaser Credit should be considered the same as cash. The new contract (2400-6) partially recognizes this need under B4.222-Purchaser Credit As Deposits- "Effective Purchaser Credit shall be considered equivalent to cash for advance deposits notwithstanding the B4.2 prohibition on using Purchaser Credit for Base Rate charges." However, this refers only to advance deposits for stumpage payments.

Computation of Purchaser Credit

Computation of Purchaser Credit is made monthly based on Table 10 and Forest Service estimates of the percentage of road construction work completed. Five percent of the cost estimate for completed work is withheld until the work is completed or is abandoned under other contract provisions (B5.253 or B8.33).

As Effective Purchaser Credit is earned it is entered in the Timber Sale Statement of Account. Effective Purchaser Credit means unused Purchaser Credit which does not exceed Current Contract Value minus Base Rate Value, i.e. credit that can be used to meet stumpage charges.

Problems Still Exist

The new contract forms 2400-5 and 2400-6 did reduce some of the purchaser's problems relating to road construction on Forest Service timber sales. Still existing however, were the situations whereby timber purchasers would not receive full compensation for construction of government system roads under the timber sale. This occurred often where timber values were low and road costs high. In those situations, there was an accumulation of excess Purchaser Credit.

Transfer Of Purchaser Credit

To overcome the problem of unuseable (excess) Purchaser Credit, Congressman H. T. "Bizz" Johnson provided leadership in the 1975 amendment (P. L. 94-154) of Section 4 of the Act of October 13, 1964 (Roads and Trails Act). The amendment added the following sentence to that Act:

> "The Secretary is authorized, under such rules and regulations as he shall prescribe, to provide for the transfer of unamortized road costs, earned after the date of enactment of this provision from one timber sale to another within the same proclaimed National Forest."

The provision helped partially serve the purpose for which it was intended; to reduce the amount of cash timber purchasers have tied up in road construction.

The rules and regulations prescribed on transfer of Purchaser Credit thus far are found in 36 CFR §223.3(m):

> "The amount of purchaser credit which may be transferred into a given sale shall be limited to the difference between current contract value and the total of:
>
> (i) remaining base rate value needs,
>
> (ii) Salvage Sale fund needs plus sale area improvement needs in excess of base rate value needs, and
>
> (iii) total purchaser credit limit on the given sale."

These restrictions could result in a zero limit on some sales, in which case Purchaser Credit could not be used until it is earned on that particular sale. There are reasons to seek changes in the dollar limit for transfer-in of Purchaser Credit described in this section and the current contract provision C4.211#-Transfer of Purchaser Credit (8/76).

County Revenue Protected

The last six words of the 1975 amendment (P. L. 94-154; "...within the same proclaimed National Forest.") were provided to assure that transfer of credits would not affect county incomes, since such incomes were tied directly to the cash payment for timber in the related national forest. This restricted transfer of credit between sales on different forests and did not provide full use of private money expended on government road construction.

County revenue was later given protection in Section 16 of the National Forest Management Act of 1976 by amending 16 U. S. C. 500 to include as "moneys received" the cost of National Forest Transportation System roads constructed under timber sale contracts. The road costs are now part of the revenues shared with the States to provide in-lieu-of-tax payments to the counties.

In April 1978, George Craig, Executive Vice President, Western Timber Association, wrote to Congressman H. T. "Bizz" Johnson and Senator McClure requesting that the six word phrase be stricken from the law so that cash-flow problems could be reduced for timber purchasers. He noted that this was "...an important consideration in this capital-intensive industry where credits for costly roads may not be used as payment for timber for more than a year after the investment is made." Mr. Craig further noted that, "Any further improvement in reducing capital requirements will help the economy of timber-dependent communities of the West." That opportunity still exists today.

Ineffective Purchaser Credit - Free Lunch For Government

The 1975 amendment (P. L. 94-154) to Section 4 of P. L. 88-657 specifically noted that the transfer would be for "unused effective purchaser credit for road construction...".

"Effective Purchaser Credit" once again, is the unused Purchaser Credit which does not exceed Current Contract Value minus Base Rate Value. "Base Rate Value" is the sum of the products of Base Rates and estimated remaining unscaled volumes by species of Included Timber meeting Utilization Standards.

When timber sale values are not sufficient to support the costs, plus a predetermined return to the government, at the time of appraisal, the sale is termed deficit. More explicitly, the term means the estimated value of the product to be cut from the timber is less than the sum of all costs for an operator of average efficiency and total charges at Base Rates and a normal return for profit, risk,and interest on borrowed capital and income taxes.

If there are road construction or reconstruction requirements on deficit sales, the purchaser may receive partial or no compensation for his work. The Timber Sale Statement of Account is not effectively credited for work completed, nor can the ineffective Purchaser Credit be transferred to another sale. The government received an asset free of charge.

Ineffective Purchaser Credit can develop after a timber sale has been awarded, due to dropping markets and subsequent de-escalation in Tentative Bid Rates. Many purchasers are facing that problem under the current recession.

Ineffective Purchaser Credit Is Inflationary

Since purchasers are not compensated for the value of road construction work by which the sale is deficit, it is not uncommon for them to overbid the timber sale up to that amount. The contract is awarded to the apparent high bidder. By doing so, the sale costs no more than without the overbid (the road would be constructed free of charge to the government at purchaser's expense in any event) and the Purchaser Credit then becomes effective, and transferable to another timber sale.

Thus, it could be said that the maintenance of the ineffective Purchaser Credit concept is inflationary since it causes companies to overbid sales just to help their cash flow position.

The important point to remember is that ineffective Purchaser Credit is a private subsidy to government. Although proposed legislative changes may require the government to compensate purchasers for this ineffective Purchaser Credit, it is by no means a "guaranteed subsidy" by the government as suggested by Mr. Robert Wolf in his report to Congressman Marlenee. Rather, it would be a just compensation for services rendered by timber purchasers for construction of roads designed for a 20 year life.

Further, the need for the elimination of ineffective Purchaser Credit and transfer of Purchaser Credit between forests is pertinent to the economic conditions which the timber industry now faces. Any improvement in cash flow potential may spell the difference between continued business and bankruptcy.

* * *

PREPARED STATEMENT OF ART ADAMS, PRESIDENT, NORDIC PLYWOOD, INC., ROSEBURG, OREG.

With this testimony I will try to create a picture for you of a small, family owned, veneer plant operation located in Roseburg, Oregon.

NORDIC PLYWOOD, INC., is a second generation family owned business, owned and operated by my brother and myself. The Company was founded in 1954 by my father, Dick Adams, and has operated continuously for 28 years under the corporate name of Nordic Plywood.

The plant is a veneer peeling facility consisting of eight foot and four foot lathes, producing primarily green Douglas Fir veneer used in the production of soft wood plywood. We produce by-products of chips, peeler cores, and hog fuel residuals. We employ approximately 75 people. All sales of all products are sold on the open market. The veneer is normally sold to 10 to 12 plywood layup plants within a 150 mile radius of Roseburg, Oregon. Our chips are contracted for export; hog fuel residuals contracted to local users; and peeler cores sold to a local saw mill.

This industry is fiercely competitive, and to compete takes know how and hard work. At Nordic Plywood we have an excellent plant and operation, and one which we feel is respected by other companies in our industry.

Our log useage requirements range from 20 to 24 million board feet of logs annually. Of that volume, 90% comes from Federally owned lands, and the remainder coming from private timberland owners. From the federally owned timber lands, approximately 80% comes from the Bureau of Land Management, and 20% from U. S. Forest Service. Presently our company has 56.4 million board feet of both BLM and USFS timber under contract. This amount represents less than three (3) years log useage requirements for Nordic Plywood.

You should know that for the past 2½ years the wood products industry has really struggled. For the last year or so it has been almost totally paralyzed. From August of 1981, to July of 1982 the operating losses of our company have been in the high six figures. We have met our government timber contracts but suffering huge financial losses during a continuing plunging product market. In November of 1981 our employees agreed to and accepted a 20% wage reduction in order to try to lower operating losses and to continue operations.

On June 30, 1982 our plant ceased operations indefinitely. At the end of this current month my brother and myself will be the only people on our payroll. Our future is very clouded, and we have no solid plan of re-opening. We do not have one (1) timber sale we can operate now, or in the foreseeable future. If we did have a log at an in pond cost to allow us to operate, the extreme softness of our markets continues to create new lows in price almost weekly.

What are the solutions for our industry? Fact: Today it is safe to say that anyone having government timber sales under contract, and required to harvest the timber in subsequent months -- probably has, or will have, a substantial "Contingent Liability" attached to their balance sheet. This so-called "contingent liability" is going to eventually turn into an operating loss unless something is done to preclude the loss. To preclude that loss can only occur if markets for our products will allow conversion of the log at contract price or the contracted agreement is void. Extensions of contracts do not eleminate "contingent liabilities". This industry, and my company, must have contract termination, not contract extensions.

What lies ahead for my company and our industry?

As a businessman, when I look back over the past two (2) years, many things bother me. High interest rates that have literally paralyzed the wood products industry, and many others. Restrictive timber management policies that do such a poor job in the total management of our forests. And of course the human suffering (mostly mental) that goes with being unemployed and all the personal problems that go with the unemployed.

But I guess gentlmen, what lies ahead is the question that I'm most concerned about. What is the future of Nordic Plywood?

Without knowing the future, every business decision we have made we felt we made with good judgment. We have spent almost three (3) decades as a family in this industry, along with all our employees, plus all the other companies and people we work with, working hard to make a better plant by re-investing capital to develop new production and management techniques in order to make us a good, solid, viable business. Today our future has a large cloud overhead. We have timber sales with $ 400 per thousand board feet for stumpage costs, and markets that will barely support a $ 50 to $ 100 per thousand board foot stumpage cost.

What good are extensions? --- You cannot have a policy of extensions and still properly manage and develop our forests, or be of service to the industry and the people it supports, and from such a policy solve our problems. The cloud over our industry must be at least partially removed by complete contract termination.

NATIONAL FOREST PRODUCTS ASSOCIATION
1619 Massachusetts Avenue, N. W., Washington, D. C. 20036

STATEMENT OF
WILLIAM H. STIMPSON
PRESIDENT OF THE
NATIONAL FOREST PRODUCTS ASSOCIATION
BEFORE THE
SUBCOMMITTEE ON FORESTS, FAMILY FARMS AND ENERGY
OF THE
HOUSE AGRICULTURE COMMITTEE
UNITED STATES HOUSE OF REPRESENTATIVES
ON
TIMBER SALE CONTRACT MODIFICATION
AUGUST 18, 1982

I am William H. Stimpson, President of the National Forest Products Association. I am also Chairman of the Board of Gulf Lumber Company located in Mobile, Alabama.

Headquartered in Washington, D.C., NFPA is a federation of twenty-nine regional, product and species associations and fifteen direct member companies. NFPA represents the growers, manufacturers, and wholesale distributers of solid wood products throughout the United States. I am here today to represent the NFPA on the issue of federal timber sale contract modification as it is treated by HR.6913, to provide for the termination, extension or modification of Federal timber sale contracts, and S.2818, a bill to provide for adjustment of termination dates of federal timber sale contracts.

NFPA welcomes this hearing on legislation dealing with general concepts of relief for purchasers of federal timber. We applaud your efforts in dealing with serious problems stemming from the recent long period of economic decline, and a depressed market for timber and other wood products. These factors result from a series of government actions which contributed to both inflation and extraordinarily high interest rates. In the face of this dismal economic situation, many purchasers must deal with the prospects of completion of federal timber sale contracts, which have purchase prices too far above break-even points in today's markets. The potential impact of this situation on the very survival of many producers is well covered in Senator Hatfield's introductory statement.

The NFPA has served as a forum, focal point and clearinghouse for the various industry views on the issue for most of this year. With some understandable and strong exceptions, there has been a growing trend toward agreement that a legislative solution is preferable to the uncertain, chaotic, and long drawn out result that is likely should legislation not be enacted.

At this time, however, NFPA members have widely differing views on the concept of relief and the specific provisions of the bill, and NFPA is not in a position to support HR.6913.

However, there has been a growing agreement within the industry on some major elements of any legislative package.

These are: (1) Termination of up to 40% of a Purchaser's volume under contract, and (2) a five-year contract term adjustment for sales that are not terminated.

Also, many feel strongly that any action taken by the government to alleviate this difficult situation should not distort the normal competitive market system. Because of the extraordinarily large volume of federal timber under contract in the northwest, there is fear that terminated or defaulted contracts could force large amounts of timber on the national market all at once when national consumption remains at historic lows. Without increased demand, increased flows of timber from one section of the country could affect markets in another section. Thus, there is agreement among those supporting legislation that the bill should spell out that terminated or defaulted timber be marketed by the Government in an orderly way. However, there is not yet agreement as to how guidelines for this concept should be spelled out.

I would like to give you some background on the current problem and the reasons why there is a growing pressure in the industry for a legislative solution.

BACKGROUND

In the Fall of 1981, Purchasers of federal timber in the West and the Forest Service became concerned about the increasing volume of timber under contract that was priced too high to be cut under current or future market conditions. The volume of uncut timber under contract increased. This occurred because the falloff in demand for wood products reduced end product prices to the point where Purchasers could not afford to harvest timber without sustaining substantial financial losses.

High Contract Costs

Bid values for national forest timber rose dramatically in the 1970's. For example, prices for Douglas-fir, the principal species in the Pacific Northwest, rose from an average of $41.90 per thousand board feet (MBF) in 1970 to $432.20 per MBF in 1980, a 931% increase. This increase resulted from a myriad of conditions. These include a perceived shortage of available timber due to uncertainties over Federal wilderness policies and land allocation for other non-timber uses, in addition to increased competition for available timber supply.

The Forest Service projected in the early 1970's that housing starts would average 2.6 million throughout the decade of the 1980's. Some Purchasers believed these and other factors required them to pay high prices for raw materials or be without a supply of timber for their mills. Thus, for a decade inflation and the threat of shortages encouraged purchasers to bid higher than current markets allowed and still operate profitably because most sales were not cut until 2-5 years later.

Housing Starts Decline

In the Fall of 1979, the Federal Reserve Board tightened the growth of the money supply in an effort to control inflation. This action resulted in higher borrowing rates as competition increased for available money, particularly with huge federal defaults. The traditional systems of home mortgage financing were changed. Long-term mortgages, the primary lending vehicle for home financing, fell victim to increasing rates. Most of the contracts that are currently uneconomic to operate were bid prior to this major reversal of federal housing and monetary policy.

As interest rates rose, home sales fell. Housing starts dropped from an average of 1.77 million during the decade of the 1970's to 1.1 million in 1981. This drop had a devastating effect on the timber industry nationwide. Roughly half of the softwood sawtimber produced in the United States is used for new home construction. As housing demand diminished, the demand for wood products fell with it. The situation worsened in 1982.

The reduced demand for wood has caused end product prices to drop to the point where many timber purchasers can not afford to manufacture lumber and plywood without incurring substantial losses. As a result, timber that had been purchased under the high bid prices of the late 1970's is left standing in the national forests unharvested.

Timber Sale Contracts

The Forest Service sells public timber from the national forests in parcels on a competitive bid basis. When a high bidder on a timber sale signs a contract for a parcel of timber, he agrees to harvest the timber within a stated time period. The length of contract varies by geographical region and the amount of timber included in the sale. Road building and environmental safeguards can increase the term of a contract by one or more years. A typical contract length in the Pacific Northwest is 3 to 4 years.

The Forest Service's interest is to have contracts carried out. It recently recognized, however, that many timber sale contracts would be defaulted unless the terms were adjusted. Accordingly, it announced in early 1980 that a one year extension of contracts would be provided due to the severe falloff in demand for wood products. Throughout 1980 and most of 1981, market conditions did not improve. In response, the Forest Service announced in October, 1981 that it would offer a two-year extension of existing contracts. By May of 1982, market conditions had deteriorated to the point where many purchasers could not pay contract extension deposits, a requirement of extension. To prevent further hardship, the Forest Service granted a waiver of extension deposits but required that interest payments be made or be accrued on unpaid balances owed to the government.

This action, though temporarily favorable to many federal timber buyers, only delays the serious problems that still confront them.

Another serious problem area is the difference between the timber appraisal system in the Southern Region and that which applies in other Forest Service Regions. In this depressed market the "transaction evidence" system in the South lags well behind the actual end product values which are more promptly and accurately reflected in the western "residual value" system. This serious differential must be corrected.

Why Contract Relief is Proposed

Federal timber production is a primary industry in many Western states, with a large segment of the industry dependent on national forest timber for its raw material supply. But this is a national problem, and not just a western concern. Although private timber predominates in the South, the possibility of a glut of timber flooding a static national market could affect traditional southern markets as well.

Without a legislated solution, purchasers may have little choice but to default on many contracts. When and how this occurs is not predictable. Substantial defaults could disrupt normal market patterns because to determine damages, the defaulted timber would be readvertised and resold immediately. Law suits would be likely, and damage collection uncertain. It seems clear that without legislative relief or dramatic market improvement many companies in the timber industry, particularly the small independent operators who own little or no timber, will be in more than normal jeopardy.

The Provisions of HR.6913

HR.6913 would provide authority for termination of an unspecified portion of sales held by a purchaser. The 40% limitation that has emerged with considerable industry support is quite important to many operators. Also the bill does not include provisions relating to purchaser credit, a vital concern for many operators in the intermountain region. The "price rollback" provision is strongly opposed by parts of the industry. It reduces the price of timber but still implies a requirement to immediately harvest that timber despite very low demand for lumber.

CONCLUSION

During these hearings you will hear a wide range of views from the forest industry. Your record will be full, and the issues clarified. We urge you to continue your leadership role in trying to forge a solution to this catastrophic problem. We pledge our support during the process in aiding the Congress and the industry in finding the best approach to the issue.

I will be glad to answer any questions you may have.

Remarks of Aaron U. Jones, President, Seneca Sawmill Company
90201 Highway 99, Eugene, Oregon 97402
with regard to HR 6913

Mr. Chairman, I would like to thank you and the members of the subcommittee for the opportunity to present my views on the legislative relief being considered with regard to outstanding federal timber sale contracts.

There is no need for me to reiterate in detail the terrible conditions that exist in the forest products industry. Other witnesses have done that. The facts are simply that:

- housing starts are down,
- timber harvesting is down,
- employment is down,
- receipts by federal, state and county governments are greatly down as a result.

The situation in my view is as bad or worse as that which existed during the great depression. The effect on governmental receipts is even worse than in the depression because of a dramatic shift toward public timber as a source of raw materials since that time.

As the Forest Service has recently stated, "the current economic situation in major sections of the forest products industry can only be described as depressed". Likewise, as the Chief himself has found, it is in the substantial overriding public interest to act.

In response to this dismal situation, several proposals have been introduced. They are S.2805 and HR 6913 (which essentially provide for the termination of a portion of a company's timber sale contracts and the extension and/or price modification of remaining contracts) and S.2818 (which provides for the adjustment of contract length without penalty for a period of time equal to the original term of the contract (not to exceed 5 years)).

As noted above, the proposed solutions to the general problem are varied. Therefore, at this point Congress must first note that different problems effect various segments of the industry and recognize that while the situation is universally bad within the industry, a general solution may solve very little.

The Congress should also note that some definitive action must be taken now. Every day that passes in this period of uncertainty causes new and unexpected problems to arise.

I. Suggestions for the Douglas Fir Subregion

In the Douglas Fir subregion, which is comprised of the western portions of the states of Oregon, Washington and Northern California, outstanding timber sales purchased in previous years are economically inoperable both today and for the foreseeable future. This is true because of the extreme imbalance between the high fixed prices[*/] at which they were purchased and the depressed values at which the finished lumber products from these sales can be sold. Absent a radical shift in the pace of housing construction (something which does not loom on the horizon)

[*/] It should be noted that these sales were purchased at flat rates rather than at rates subject to escalation/de-escalation as in other areas.

markets for finished wood products threaten to remain anemic far into this decade.

Extension of these contracts would do very little in terms of providing relief to the industry, maintaining the stability of the communities in which mills are located, and generating employment. In fact, merely extending these sales will have a severely negative effect on any number of companies presently up against the financial ropes. The magnitude of the financial crisis facing these firms can be seen in the fact that at prices bid in 1979 the average cost of only a 4 month supply of timber is equal to the average purchaser's present net worth. Since most companies have a two year supply of timber under contract, it is clear that absent relief profound losses will be incurred if these sales were harvested. These tremendous losses are presently being viewed as liabilities on the companies' balance sheets by banks and bonding companies, among others. Thus, not only is the ability of these companies to borrow the monies necessary to sustain themselves effected but so is their ability to secure the bonding which is vital to continued operations. Absent immediate termination of these sales the very existence of these companies is in extreme jeopardy as is the existence of the industry as it presently exists in the Douglas Fir subregion.

Moreover, granting further extensions does not add to present employment or harvesting levels especially when the sole reason for granting extensions lies in the hope that the market for finished products will soon return to reasonable levels so as to make the sales economically harvestable. Rather, based on this premise it would be difficult to deny additional non-productive extensions should the hoped for return of the market not occur.

Accordingly, extensions will also have a serious negative effect on the ability of the government to manage its timber lands in the sense that certain of these lands, which silviculturally may become in need of harvesting, will be "locked up" for long periods by contract and thus difficult, if not impossible, to truly manage.

Furthermore, extensions will only give false encouragement to some companies who will as a result return to the practice of bidding for sales at prices beyond the break even point. Their ostensible purposes will be to bring down their average price of timber under contract. However, by doing so the only things that will happen are that average stumpage prices will rise while timber volume encompassed by economically inoperable sales will increase.

The only solution that is viable in the Douglas Fir subregion is to

(1) grant each purchaser the right to terminate any and all sales in the subregion just as Congress did back in 1935 when blanket terminations were legislated
(2) require that each purchaser pay for the cost of reselling the timber sale so terminated (up to $10,000 per sale)
(3) require that any sale not terminated be operated as required by contract without any further "emergency type" modifications or extensions.

(a.) Additional antispeculative measures

In my view, terminating and then reselling timber sales in conjuntion with a reasonable allowable cut would assure adequate supplies of raw materials at reasonable prices (something which is necessary to preclude the present situation in the Douglas Fir subregion from arising again). However, additional care should be taken to preclude any future return to runaway bid prices should the market show some signs of recovery.

I recognize that the Forest Service and BLM have made and are contemplating making other steps in this regard. However, I would also suggest the implimentation of measures which would permit only responsible bidders to participate in oral auctions. (Please note, I am not suggesting the use of blanket prequalification as this could have a negative impact on a new entry into the industry. However, I am saying that a determination of the responsibility of all participating companies should be made before the oral auction phase of competition so that the competition thereafter is only between bonafide bidders. I am advised by counsel that such an approach is both entirely feasible and consistent with all competitive bidding requirements.)

In addition, as another antispeculative measure, I would suggest that there be a repeal of all regulations that permit or encourage nonresponsible bidders to bid up timber sales with impunity. In this regard, I would commend the subcommittee's attention to Forest Service regulation 36 CFR §223.7(c) which permits any company to drive up the price for timber at oral auction, thereafter be found nonresponsible and inelegible for award at which time "award at the highest price bid may be offered to the next highest qualified bidder". In this and related circumstances, I would suggest a return to the previously used rule whereunder, all bids received from any concern which is later disqualified for award were stricken from the record and award was made to the qualified bidder which submitted the highest bid, at its first bid which exceeded other bids from qualified concerns.

Consideration should also be given to raising cash deposits payable at the time of contract execution from the present 5% of bid price to a higher level, on a subregion by subregion basis, whenever it appears that the average bid price within a subregion greatly exceeds the average appraised price within that subregion. This will apply antispeculative pressures where, when and if needed but only where, when and if needed and should not unduly burden other geographic areas with the solutions to problems that are unique to a particular subregion.

In this regard, I would favor a formula such as this:

Difference between average bid price & average appraised price (i.e., average over bid)	Cash Deposit
0 -25%	5%
26%-50%	10%
51%-75%	15%
76%-	20%

II. Basic Relief for Other Regions

The problem within the industry that exists in regions other than the Douglas Fir subregion is significantly different. Outstanding federal timber sales in other regions may not be permanently inoperable. This is true because these sales unlike these in the Douglas Fir subregion were not bought at excessive flat rate prices and the sale prices were subject to escalation/de-escalation based on market conditions. Indeed, to date, stumpage prices for this timber have de-escalated on the average of $100 per thousand board feet.

However, this is not to say that there may not be instances in which termination is entirely appropriate and that, as such, granting purchasers a right of termination in these areas is not only fair but also a necessary option. Nevertheless, the fact remains that these timber sales do not need anywhere near the level of recovery of the finished products market to become operable that the sales in the Douglas Fir subregion require. As such, if the holders of these sales were simply afforded the opportunity to request and receive additional time in the form of contract term adjustments made without penalty or payment, operability problems that currently exist with the sales may be worked out. In this regard, the suggestion in S.2818 for contract term adjustment equal to the length of the original term of the contract (not to exceed 5 years) would appear to be a particularly effective one where within the adjusted term the sales would be operable. Relief of this sort, as an adjunct to a right to termination, would seem entirely appropriate in regions other than the Douglas Fir subregion with its unique problems.

III. Scope of Relief

At this juncture some discussion as to the scope of proposed relief may be in order. S.2805 and HR 6913 as presently written would afford relief but would limit that relief to those companies which could make "a showing of economic hardship."

Even as the president of a company that is very small in comparison to the giants which exist in our industry, I cannot favor this limitation. Our entire industry is in trouble. The facts, stated broadly at the outset of my remarks and those raised by others in their presentations to the Committee, clearly indicate that we are an industry in distress. However, the present legislation smacks of the analogy that the ship has gone down, and lifeboats are picking up survivors with the admonition to "take one and leave one!"

Any attempt at this time to discriminate between companies on the basis of need will, in my view, ultimately lead only to unfairness, inequity and finally to litigation. It is far better that a few companies get relief which might not be critical to their ultimate survival than for a single company to be denied relief that is in fact critical to its survival simply because that company did not fall within some arbitrary definition of economic distress.

It is for not unanalogous reasons that the partial nature of the termination authorized by S.2805 and HR 6913 leads me to conclude that enacting this legislation without modification would again generate unfairness and would not maximize the industry's survival rate. To permit only limited terminations, would disproportionately benefit some multiregional operators to the competitive detriment of the companies, both large and small, which operate solely within the Douglas Fir subregion. That is, a company with federal contracts both within and without the Douglas Fir subregion, if allowed to terminate a sufficient percentage of its volume under contract so as to liquidate all its high priced holdings in the Douglas Fir subregion would have gotten rid of the entire millstone that permanently inoperable sales represent. At the same time, a company operating sales solely within the Douglas Fir subregion, even if allowed to terminate the same percentage of its contractual holdings, would still be saddled with a monumental potential liability in the form of its remaining high priced sales to the point where the competitiveness of that company if not its continued existence would be seriously jeopardized.

As I said earlier, in my view no company in this time of general distress within our industry should be denied relief solely by virtue of its size or structure. Likewise, I feel that no company by virture of its size or structure should be allowed to benefit unduly from such legislation. Rather the legislative aim should be to return stability to the timber industry while at the same time not disturb the balance that has existed within the industry in recent years.

IV. The "Cost" of Relief

Some would have the Congress believe that the relief being discussed will amount to a huge reduction of assured receipts to the federal treasury.

I would hope to have you recognize that relief can be justified solely on dollars and cents grounds and that the added human benefit to be derived from such relief is wholly apart and in addition. That is, in order to assess the impact of this legislation the Congress must critically analyze, and not merely accept at face value, the alleged amount and assuredness of the receipts which would be foregone if these timber sales were terminated.

By calculating the total current contract value of sales which would be terminated, less the total actual value that would be obtained from resale, a figure can and has been determined. However, whether this figure is anywhere near the actual amount of foregone receipts is dependent on one very salient factor--Could the federal government recoup this amount of money from purchasers if no relief were granted? The answer to that question is, in my opinion, clearly no.

As stated by the Forest Service in its report on implications of timber sale termination legislation, "if economic conditions do not improve and the high price sales are defaulted, the only receipts will be through collection of damages and any resale value. If many operators go bankrupt it will not be possible to make a full collection of damages even though there are sureties with each contract. Sureties are liable for a maximum of 10% of the contract value."

This can best be seen in the following example -

1) absent relief the purchaser, heavily in debt, suspends operations.
2) the timber sales expire uncompleted
3) banks & other mortgage holders assert their clear rights to the company's tangible assets (plant & equipment) (specified assets will be disposed of to meet the claims of these creditors)
4) bonding companies establish their position to specified assets and monies based on indemnity agreement with the company (specified assets will be disposed of to meet the claims of these creditors)
5) other secured creditors assert their rights to other tangible and intangible assets (specified assets will be disposed of to satisfy the claims of these creditors)
6) general unsecured creditors assert their claims
7) the company is probably put into involuntary bankruptcy proceeding by unsecured creditors
8) the timber sale is resold for much less than price under the original contract
9) the government attempts to collect the difference from the defunct company
10) the government sends a bill to the surety for the limited portion of damages covered by bond (Note sureties are liable for maximum of 10% of contract value)
11) the surety and/or referee in bankruptcy contest liability and assert any and all defenses of the defunct company
12) the matter is litigated for several years
13) if the government wins, the surety pays its percentage and the government, as another unsecured creditor, is paid only if there are unencumbered assets remaining (but then only on a percentage basis. Normally .05-20 on the dollar)
14) if the government looses - the government gets nothing

While this has gone on

- one less company exists in the industry
- one more step toward concentration has occurred
- competition is decreased
- the physical productive capacity represented by the company is lost forever
- the company's employees stop paying income taxes, social security taxes, etc.
- the government has to pay unemployment, and possibly welfare to the former employees
- the local tax base has decreased as the facility goes off the tax rolls

Moreover, it should be noted that even if some minor continuing effort to harvest these "unharvestable" sales were possible, to the extent that the federal treasury receives revenues from these sales, these receipts are being offset by significant corporate losses which, under the tax laws, permit the corporations to receive refunds of taxes paid in previous profitable years.

Based on the above and the fact that passage of appropriate relief will insure the existence of future competition and thus a reasonable level of federal receipts from timber sales, I feel that the government will in the long run make money from this legislation. This is especially true when one also considers that we are dealing with a live growing product, a tree, which is increasing in wood volume at 2% a year.

V. Market Shifts

Lastly, there are those who will urge the Congress not to adopt relief along the lines suggested herein and in part in S.2805 and HR 6913 for fear that such relief will permit timber products from the Douglas Fir subregion to invade retail markets traditionally dominated by other regions of the country. To these individuals, I would say that such a situation is not possible in view of the significant distance and freight rate differential which greatly work to the disadvantage of the operators in the Douglas Fir subregion and as such preclude the practical expansion of that region's markets for finished products. Moreover, the market invasion to be feared comes not from within the United States but indeed from without. That is, at present the Canadian government is substantially underwriting not only timber production but also greatly assisting Canadian companies by virtue of extremely favorable rail rates. As a result, Canadian imports, have reached astronomical levels in areas as far from Canada as the southeastern portion of the United States. For example, I am advised that 55% of the forest products sold in Georgia is Canadian. These imports in fact setting the prices in many retail markets. This unrelenting drive toward lower retail prices due to pressure from Canadian sources coupled with an unfavorable rail rate differential make it clear that Douglas Fir finished products could not successfully compete in anything other than its Western markets even in the unlikely event that the price for raw materials in the Douglas Fir subregion were to drop all the way down to the regulatory minimum base rates.

Mr. Chairman, again I thank you for the opportunity to have addressed this subcommittee. I hope that my comments and thoughts will help you in your deliberations.

2300 Southwest First Avenue
Portland, Oregon 97201
Telephone (503) 224-4051

ALLIED FOREST PRODUCTS, INC.

August 6, 1982

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WASHINGTON OFFICE

Representative James Weaver
Room 1226, Longworth House Office Bldg.
Washington, D. C. 20515

Dear Representative Weaver:

I am writing in regard to the current proposed timber sale contract relief bill as submitted by Senator Hatfield and yourself, of Oregon. It is my understanding that the Senate will hold hearings on August 16 and 17 and the House will hold hearings on August 18.

Under normal circumstances operations in the Inland Forest Service Regions #2, 3 and 4 would have been represented at the hearings by Mr. Jim Craine, Executive Vice President of Federal Timber Purchasers Association. However, due to the recent economic strain, F.T.P.A. could not find adequate financial support earlier this year and therefore had to disband the association. Some of the membership became associate members of the Inland Forest Resource Council Association. However, it was such a small number that Regions #2, 3 and 4 are not adequately represented and have virtually been left out of any discussion concerning this bill.

It is with this in mind that I feel it is extremely important that you be made aware of Allied Forest Products position regarding the proposed legislation, which I will try to keep as brief as possible.

Allied Forest Products, Inc. owns and operates three sawmills; Escalante Sawmills, Inc. in Escalante, Utah; White Sands Forest Products, Inc. in Alamogordo, New Mexico; and Wyoming Sawmills, Inc. in Sheridan, Wyoming. Approximately 90% of the raw material for these operations is purchased from the Federal Government with the balance coming from B.L.M., B.I.A., State and private sources. Our annual sawmill capacity of all three mills is approximatley 55 million board feet, so you can see we are very dependent on Forest Service timber.

We are no different than any other company and we occasionally enter into a timber sale contract with the Forest Service that we wonder where our heads were when we signed the contract, but we are also responsible and prudent operators and we diligently complete our obligations; to relieve anyone of these obligations is inconceivable to me.

Therefore, we are totally opposed to any contract relief. We must be realistic however and consider the possibility of some type of relief being granted, and if so, that there be equity in the relief between the regions. I will therefore address the three points in the bill and also offer my suggestions for your consideration.

Item #1 - Termination of timber sale contracts bid prior to January 1, 1982. This should not be considered at all, yet defaults could be avoided. (See Item #2).

Item #2 - Contract extentions. In my opinion, five year extentions are too long, however, a three year extention seems equitable. This would assure the harvesting of a portion of the more expensive timber while the industry could buy and harvest sales at todays reduced prices. This would also assist the County, State and Federal Governments in obtaining adequate funding. I believe most companies could survive in this manner, although they may have to operate at reduced levels in order to keep their losses at a minimum, such as we have.

Item #3 - Modification of timber prices on non-extended contracts. Again, this should not even be considered. Prudent operators from every region did not burden themselves with an over supply of high priced timber. Speculators did, however, and they are currently in trouble. Cancelling contracts and reducing the price on the balance of the contracts may revive the industry on the west coast, but it will totally devistate the industry in the inland regions by flooding the market with lumber at prices the inland region could not compete with. Currently most of the inland regions timber costs are as low as they can go, yet most companies cannot compete due to the poor quality of logs compared to the west coast and the high cost to convert these logs to lumber. If a stumpage price reduction is granted it will mainly assist the west coast producers. The only relief the inland regions could possibly receive would be through making ineffective road credits effective. In order to better explain the ineffective road credit problem I have attached a copy of a report from Mr. William N. Dennison.

It is extremely difficult to be brief and yet address a very serious and complex problem. If you need further input or assistance, please let me know.

Sincerely,

ALLIED FOREST PRODUCTS, INC.

Stanley W. Stephens
President

SS/ss

Attachment

cc: Representative Joe Skeen
Representative Dan Marriott
Representative Richard B. Cheney

DOUGLAS COUNTY

BOARD OF COMMISSIONERS

DOUG ROBERTSON BRUCE LONG BILL VIAN

Courthouse - Roseburg, Oregon 97470 - (503) 672-3311

RECEIVED
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WASHINGTON OFFICE

August 10, 1982

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AUG 30 1982
WASHINGTON O

Senator Mark Hatfield
463 Russell Building
Washington, D.C. 20510

Dear Senator Hatfield:

It is our understanding that public hearings will be held shortly to receive public comment on your proposed legislation to assist the timber industry. We feel it is imperative to submit to you our support of this proposed legislation. Although this legislation addresses a relief for the timber companies, we view your efforts as having a far broader reach...an impact that is at the heart of Oregon's economic survival.

As you are aware, Douglas County's economy is highly dependent upon the timber industry. The last two years have resulted in a number of business closures, long unemployment lines and families seeking public assistance without any other recourse for survival. Over 20% of the working population in our area is without work. That figure is just the tip of the iceberg. It is easy to focus on figures that directly relate to employment in the timber industry. However, the ripple effect on the small businessman and shopkeeper from the loss of those wages is often overlooked. When 25% of the purchasing power is lost as a result of mill closures, shopkeepers also experience a 25% reduction or more in their volume of business. And, as you are fully aware, that type of sustained loss to the shopkeeper in light of today's high interest rates spells certain doom.

We cannot overemphasize the importance of this proposed legislation in our community. Should you need any information or assistance which we as the Board of Commissioners can provide to you in support of this necessary legislation, please feel free to contact us.

Sincerely,

BOARD OF COUNTY COMMISSIONERS
OF DOUGLAS COUNTY, OREGON

Doug Robertson
Doug Robertson, Chairman

Bruce Long
J. B. Long, Commissioner

Bill Vian
Bill Vian, Commissioner

PREPARED STATEMENT OF JIM HURST, JR., CO-OWNER, OWENS-HURST LUMBER CO., EUREKA, MONT.

Mr. Chairman:

My name is Jim Hurst Jr. I am co-owner of Owens-Hurst Lumber Company of Eureka, Montana.

Our company is currently involved in an unusual situation which vividly displays some of the dilemmas and ironies currently facing the nation's forest products industry and which have been the focus of discussion at these hearings.

Most of the smaller mills in northwest Montana, where I operate, have been limping along on a one-shift basis. While U.S. Forest Service timber is the main supply in our area, very little Forest Service timber is now being logged.

Until recently our mill was also operating on a single-shift basis. We have processed primarily U.S. Forest Service timber and as a result of this and a drop in the lumber markets, we lost a considerable amount of money in 1981. We cannot withstand such losses in 1982 as bankruptcy will be the only alternative. Our existing Forest Service sales were purchased during a higher market period; to log them today would be disaster. We have streamlined our operation as much as possible; there is no fat left to cut and the lumber market is not getting stronger.

Therefore, our only hope for survival, as I see it, is to purchase reasonably priced timber thereby lowering our raw material cost.

We cannot look to the USFS timber sale program for help because the next sale to be offered is so badly deficit, that we will not be able to bid on it. This sale is now advertised with a $400,000 road construction requirement, this road is entirely deficit, the purchaser credit earned by constructing this road will be entirely ineffective. In other words, for the privilege of operating this sale we are being asked to donate a $400,000 road asset to the federal government. This sale is unfortunately no longer the exception but the rule in Forest Service offerings in Montana.

With this background in mind let me describe a current development.

On July 5, 1982, the province of British Columbia put a vast amount of bug-infested and high-risk timber similar to the bug-infested timber in our own country up for sale. Since the timber was dead and dying and no Canadian mills wanted it, the Canadians waived their export restrictions on logs because they wanted the timber to be salvaged as soon as possible.

Owens and Hurst has purchased nearly all of the salvageable timber that was made available, a unique situation because the stumpage is reasonable and the road costs are realistic which will allow our mill an opportunity to run two shifts instead of one, thereby increasing our work force from 38 to 70. We have more than enough Canadian timber for our small mill. However, there are at least three other mills in our area who have been operating on a single-shift basis and who have expressed interest in procuring enough of the Canadian logs to add second shifts at their plants, a situation that means 100 - 170 direct wood products jobs that will not be available without the Canadian timber.

To summarize, I think it is a shame that we in northwest Montana have to look to another country's raw material for our survival when we have plenty of dead and dying timber in our own backyard that has not yet been put up for sale.

If the Forest Service would make this timber available on a crash program and if most of the sales were not so horribly deficit because of exorbitant road construction costs then I think the wood products industry in our area would have a good chance of survival without Canadian wood.

Thank you for this opportunity to testify.

Stimson Lumber Company
Executive Offices / 520 Southwest Yamhill Street / Suite 308 / Portland, Oregon 97204 / Phone (503) 222-1676

STATEMENT OF DARRELL H. SCHROEDER
PRESIDENT, STIMSON LUMBER COMPANY

BEFORE THE SUBCOMMITTEE ON FOREST, FAMILY FARMS AND ENERGY HOUSE COMMITTEE ON AGRICULTURE ON HR. 6913 TIMBER RELIEF LEGISLATION

August 18, 1982 - Washington, D.C.

Mr. Chairman, members of the Committee, I am Darrell H. Schroeder, President of Stimson Lumber Company of Portland, Oregon and I am also the President of Miller Redwood Company, a wholly-owned subsidiary with operations in Crescent City, California. Our companies rely to a large extent upon the purchase of public timber as a source of raw material for our lumber, veneer, plywood and hardboard operations in Oregon and California. In this regard we have historically been active bidders on federal timber sales.

While all of us in the timber industry are being adversely affected by the economic conditions which exist today, we believe that the approach to relief being proposed in HR. 6913 is unfair and aimed at bailing out only a few of the companies in our industry. The low demand for timber products adversely affects all companies in the industry. Permitting selective federal timber contract terminations, however, benefits only a few companies.

Specifically, our major objection to HR. 6913 is to the proposal which would allow an individual operator to unilaterally terminate some, but not all, of its timber contracts with the federal government. While we agree that there is some merit to a contract termination approach to help the industry, the notion of allowing individual companies to pick and choose the contracts they want to turn back to the government is inequitable as favoring only a select group and not conducive to an industry-wide solution. It must be kept in mind that it is not solely the economy which has caused the problems now confronting the timber industry. Rather, it is a combination of several factors, the most important of which include speculative bidding excesses and hoarding of timber sales which some companies in the Pacific Northwest have engaged in over the past several years. Alowing those companies which obtained federal timber cutting contracts by engaging in irresponsible and excessive bidding to excuse themselves from performance under those contracts because they now deem the price they paid to be too high, is to penalize companies which have traditionally practiced prudent management and refused to become burdened with excessively high cost lumber or which chose to fulfill their obligations by living up to the terms of all their timber contracts with the federal government, whether they liked it or not. If there is to be any contract termination permitted, then in fairness and equity a company seeking such relief should be required to have all its outstanding timber contracts with that particular federal agency terminated. Otherwise, the timber relief legislation, as envisioned by HR. 6913, becomes nothing more than special interest legislation favoring only a small segment of the timber industry. HR. 6913, as drafted, does not address itself to providing a permanent solution to the current industry-wide problems. It is designed to provide only temporary relief and, therefore, fails to address a long range solution.

As an alternative to the relief provisions included in HR. 6913 which were proposed by those few companies which stand to benefit, I would suggest that in order to help prevent a future recurrence of the problems now facing the timber industry because of past excesses, the following approach would do far more to alleviate the chaotic conditons which now exist in our industry; would help curtail a repeat of past industry abuses; and would be more considerate of equity for all concerned, i.e., counties and local communities as well as the individual operators.

1. A company should have the option to either:
    a. Terminate 100% of its timber contracts with the Forest Service or Bureau of Land Management; or
    b. Have 100% of its contracts extended for a period of years at a uniform stumpage price to be redetermined by the government, taking into account the equity for counties and local communities.
2. Establish complete new bidding procedures as follows:
    a. Maximum three year contracts.
    b. Twenty percent (20%) down-payment upon awarding of contract.
    c. Sealed bids only.
    d. Maximum volume allowed under contract not to exceed two years annual requirements.
    e. Abolish the present purchaser credit policy and establish a policy of pay as you build.
    f. Establish discount benefits for early compliance and completion of the contract.
3. Establish a cap on the volume of Forest Service and Bureau of Land Management timber to be sold annually for the next five years in order not to artificially disrupt the market.

The aforementioned procedures, if enacted, would help eliminate the speculative bidding which has characterized the industry in the Pacific

Northwest for the past few years and would also tend to discourage hoarding of timber sales. Failure to enact these provisions will only mean that once the temporary measures for relief envisioned in HR. 6913 no longer work, then the industry will be back to the Congress seeking additional relief.

I urge your adoption of the substitute provisions outlined above.

Thank you.

Darrell H. Schroeder, President
Stimson Lumber Company

Victor Atiyeh
GOVERNOR OF OREGON

August 16, 1982

Representative Jim Weaver
1226 Longworth House Office Building

Dear Jim:

Attached is a copy of testimony I delivered today to the Subcommittee on Public Lands of the Senate Energy and Natural Resources Committee. I will be unable to attend Wednesday's hearing, and would greatly appreciate it if you would insert my testimony into that hearing.

I was only in town for a few hours and it was not possible to stop by your office.

TESTIMONY

Victor Atiyeh
Governor of Oregon
before the
Subcommittee on Public Lands
of the
Senate Energy and Natural Resources Committee
August 16, 1982
9:00 a.m.
Room 3110, Dirksen Senate Office Building
Washington, D.C.
S.2805

SENATOR HATFIELD AND MEMBERS OF THE COMMITTEE:

I WANT TO THANK THE SENIOR SENATOR FROM OREGON -- MY GOOD FRIEND MARK HATFIELD - FOR GIVING ME THIS OPPORTUNITY TO URGE CONGRESSIONAL APPROVAL OF S.2805.

I SPEAK TODAY NOT ONLY AS THE GOVERNOR OF THE NATION'S LEADING TIMBER-PRODUCING STATE, BUT ALSO AS THE CHAIRMAN OF THE WESTERN GOVERNORS' CONFERENCE.

THIS LEGISLATION WOULD AUTHORIZE THE BUREAU OF LAND MANAGEMENT AND THE U.S. FOREST SERVICE TO MODIFY, TERMINATE OR EXTEND FEDERAL TIMBER SALES CONTRACTS. SUCH CHANGE WOULD OFFER HOPE FOR THE SURVIVAL OF ONE OUT OF EVERY TWO JOBS IN THE STATE OF OREGON.

SENATOR HATFIELD'S PATIENT AND COURAGEOUS STEWARDSHIP OF THIS CONCEPT REFLECTS STATESMANSHIP AT ITS BEST. FOR NEARLY A YEAR, HE AND SENATOR MCCLURE WORKED HARD TO BRING TOGETHER -- AND TO KEEP TOGETHER -- WIDELY DIVERGENT INTERESTS AND POINTS-OF-VIEW.

SENATOR HATFIELD NEVER GAVE UP. AND NOW, LARGELY BECAUSE OF HIS EFFORTS, CONGRESS HAS AN OPPORTUNITY TO RESTORE THOUSANDS OF JOBS IN OREGON.

OREGON BECAME AMERICA'S PREMIER SUPPLIER OF LUMBER AND WOOD PRODUCTS SO THAT DECENT, AFFORDABLE HOUSING WOULD ALWAYS BE AN IRREVOCABLE NATIONAL PRIORITY.

BUT, OVER THE PAST FIVE YEARS, THAT PRIORITY HAS BEEN DISPLACED -- SHOULDERED ASIDE BY A DIFFERENT GAME PLAN WITH DIFFERENT RULES AND DIFFERENT GOALS.

TODAY, ONLY 10 PERCENT OF AMERICAN FAMILIES CAN AFFORD A NEW HOME.

OREGON DID NOT LEAD THE CHARGE FOR EXORBITANT INTEREST RATES. OREGON DID NOT DISMANTLE THE NATION'S TRADITIONAL SOURCES OF MORTGAGE FINANCING.

OREGON HAD NO PART IN THE FAUSTIAN BARGAINS THAT PLUNGED THIS NATION INTO RECESSION. WHY, THEN, IS IT THAT OREGON MUST BE BLED WHITE ON THE SACRIFICIAL ALTAR OF TRIAL-AND-ERROR SOLUTIONS?

IS THIS NATION INDEED INDIVISIBLE? OR ARE WE A FAIRWEATHER UNION OF SOVEREIGN STATES WILLING TO LET THE DEVIL TAKE THE HINDMOST IN STORMY TIMES?

Let me set the record straight: Oregon is not scratching and whining at the backdoor for loans and subsidies. The intent of this legislation says that it is not in the best national interests to let one small western state wither and die.

Can you blame Oregonians for believing that we have been written off as expendable? Can you understand why it makes me angry to come here and be told: "It is your problem, Governor. You solve it."

My problem is, Senators, that the federal government owns 52 percent of my state and 57 percent of Oregon's commercial timber.

Oregon owns 3 percent.

I can assure you of this: reverse that management and I will solve Oregon's problems.

My state is saddled with a federal timber management mentality that knows how to deal with the good times but is stricken with paralysis in hard times.

That is my problem , Senators. But, only Congress can solve it.

Senator Hatfield's bill offers a hand-up -- not a hand-out.

This legislation will not deprive the U.S. Treasury of one cent in revenue. It is, in fact, the one ray of hope that the federal treasury can avoid forfeiture of millions and millions of dollars through contract defaults and bankruptcies.

It is important to keep in mind that 75 percent of all revenue earned from the sale of federally owned timber in Oregon goes to the U.S. Treasury. In 1979, that amounted to $460 million.

Those were the good times. Today, the situation is drastically different. In Oregon and Washington, the federal government has 20 billion board feet of timber under contract. As much as 75 percent of that timber cannot economically be harvested and likely will not be harvested under existing contract conditions.

If worse comes to worst -- contract defaults and bankruptcies -- the best the federal government can expect to collect is 24 cents on the dollar.

Simple contract extensions are not the answer. No timber will be cut. No jobs will be restored when we need them most. Timber management will be in complete dissary. Revenue to Oregon counties and school districts will send us reeling closer to a complete economic collapse. Extensions will only postpone the inevitable.

Senators, let me put the situation in the frankest terms possible.

The wood products industry in my state is dying.

It is afflicted with the cancer of indifference at the national level where zealous economic theorists -- who do not know a green chain from a watch fob -- play elitist numbers games.

That may be heady stuff here in Washington, D.C. But, in Oregon, those numbers translate into human suffering and despair.

I understand why Congress and the administration is deeply concerned with a national unemployment rate of 10 percent.

In Oregon today, we would consider 10 percent a positive trend. Let me put that into perspective:

-- Thirty-four percent of our sawmill workers are laid off or working curtailed shifts.

-- Nearly 25 percent of our plywood mill workers have been laid off.

-- 33,350 jobless workers have exhausted unemployment compensation.

-- Lumber production is down 30 percent from normal. Twenty-nine plywood mills have shut down. Twenty-six sawmills are closed.

There is more. In his floor statement on this legislation, Senator Hatfield offered a grim inventory:

-- Since 1979, Oregon has lost 22,000 jobs in the forest products industry.

-- Production is limping along at 35 percent below capacity - and getting worse.

-- Ten wood products firms have taken bankruptcy in less than two years. Six remodeling firms have gone bankrupt. Dozens more are teetering on the edge of insolvency.

-- Oregon counties, school districts and state government face catastrophic timber revenue shortfalls that could exceed $100 million.

In many Oregon counties in which the federal goverment owns most of the forest resource -- and pays no taxes -- the county's share of revenue from federal timber sales is the primary source of funding for roads and schools.

In 1978-79, a peak year for Oregon's timber economy, revenue to Lane County from federal timber sales was $36 million -- half the county's budget. Timber revenues in Lane County will be cut in half next year.

In Grant County, timber revenues in 1978-79 were $6 million. Next year, those revenues will drop to $1.6 million -- a 74 percent decrease.

In Curry County, where 66 percent of the total budget for roads and schools is supported by federal timber revenues, there will be a 77 percent drop in revenues next year.

Those counties and others have cut budgets to the bone. The workforce has been reduced. Services have been cut. There is no alternative but to ask local property taxpayers to approve special levies.

But, in Lane County, unemployment is at 11.4 percent -- well above the national average.

Taxpayers cannot give what they do not have.

We are all searching for the keys to economic recovery. It may be that our new course will correct errors of the past and lead us to a lasting cure.

But, the forest products and homebuilding industries may not live long enough to be cured.

If you doubt that, check their pulse: new housing starts are down 60 percent since 1978.

If these industries die -- or are so severely damaged that a full recovery is in doubt -- then we can stop the debate on whether home ownership should be restored as a national priority of the highest order.

It simply will not matter.

Nine months ago, I came to Washington to testify before subcommittees chaired by Senator Packwood and Senator Danforth.

Those subcommittees were investigating the causes of the most severe recession this nation's forest products and homebuilding industries have ever suffered.

Last November, I spoke on behalf of 17,000 Oregon men and women who had lost manufacturing jobs.

Today, I speak on behalf of 25,000 jobless workers in that sector.

I told those subcommittees what I would do to help Oregon help itself. And, I asked that federal timber management agencies follow our lead.

I returned to Oregon and declared a State of Emergency in our timber products industry. That action made small mill owners and logging operators eligible for low-interest federal assistance loans.

A Special Session of the Oregon Legislature approved my plan to authorize the State Forester to modify timber sales contracts for state-owned stumpage.

NEW CONTRACT PROCEDURES PROVIDED RELIEF TO HOLDERS OF STATE TIMBER CONTRACTS WHO COULD NOT OTHERWISE CUT AND SELL THAT TIMBER IN A DEPRESSED MARKET.

SINCE JULY 1, 86 OF 88 TIMBER SALES SUBJECT TO NEW PROCEDURES HAVE BEEN MODIFIED. THE AVERAGE ROLLBACK WAS ABOUT 44 PERCENT.

BY MID-JULY, LOGGERS WERE HARVESTING TIMBER ON 61 CONTRACTS ADMINISTERED BY THE OREGON BOARD OF FORESTRY. OF THOSE 61, 35 WERE SUBJECT TO THE ROLLBACK.

IN ALL PROBABILITY, NONE OF THOSE 35 PROJECTS WOULD BE UNDERWAY TODAY -- AND NONE OF THE 860 NEW JOBS WOULD EXIST -- WITHOUT CONTRACT MODIFICATIONS AND OTHER RELIEF MEASURES. BY SEPTEMBER, MOST OF THE 86 CONTRACTS WE MODIFIED WILL BE ACTIVE.

YOU MUST REMEMBER, SENATORS, THAT STATE-OWNED FOREST LANDS IN OREGON COMPRISE JUST 3 PERCENT OF OUR TIMBER RESOURCE. BUT, BY FACING REALITY AND MODIFYING OUR CONTRACTS, WE WILL HAVE RESTORED 1,450 JOBS BY THE END OF THIS YEAR.

SOME HAVE ARGUED THAT THE STATE WILL LOSE MONEY BECAUSE WE ROLLED BACK PRICES.

THAT IS UTTER NONSENSE. WE HAD TWO CHOICES: 100 PERCENT OF NOTHING OR 56 PERCENT OF SOMETHING.

CONGRESS NOW FACES THE SAME CHOICES. THERE IS NO REASON WHY FEDERAL TIMBER MANAGEMENT AGENCIES CANNOT DO AS WELL AS WE HAVE -- 56 CENTS ON THE DOLLAR -- INSTEAD OF 24 CENTS ON THE DOLLAR IF NOTHING IS DONE.

NINE MONTHS AGO, I TOLD CONGRESS WHAT I WOULD DO TO HELP OREGON. I DID WHAT I SAID I WOULD DO.

SENATOR HATFIELD'S LEGISLATION WILL ALLOW FEDERAL AGENCIES TO DO MUCH THE SAME AS OREGON HAS DONE.

THE BILL, IN EFFECT, SAYS TO THE SECRETARIES OF INTERIOR AND AGRICULTURE: "HERE IS A SERIOUS PROBLEM. HERE IS THE AUTHORITY TO DEAL WITH IT. DO IT."

THE BILL WILL NOT CURE ALL OUR ILLS, NOR IS IT INTENDED TO. IT WILL BRING DESPERATELY NEEDED RELIEF TO THE PEOPLE OF MY STATE, WHO HAVE BEEN BATTERED SO UNMERCIFULLY BY FORCES FAR BEYOND THEIR CONTROL.

# # # # # #

August 19, 1982

The Honorable Norman D. Shumway
1228 Longworth House Office Building
U.S. House of Representatives
Washington, D.C. 20515

Dear Norm:

I want to thank you for appearing before the Forests, Family Farms, and Energy Subcommittee on August 18 to discuss timber contract terminations. Your testimony was excellent.

There was one question that I wanted to ask you, but unfortunately we were interrupted by a vote in the House. The Chairman has held the record open and, if I may, I would ask that you respond to the following question prior to August 27 so that it may be part of the hearing record. My question is this:

> Have you received any communications from people within the timber industry in California in opposition to legislation that would terminate existing timber contracts?

I look forward to working with you on this issue and value your suggestions as we proceed with this legislation.

Sincerely,

Ron Marlenee
Ranking Minority Member

NORMAN D. SHUMWAY
14TH DISTRICT, CALIFORNIA

COMMITTEES:
COMMITTEE ON BANKING,
FINANCE, AND URBAN AFFAIRS
MERCHANT MARINE AND
FISHERIES
SELECT COMMITTEE ON AGING

Congress of the United States
House of Representatives
Washington, D.C. 20515

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CHRISTOPHER C. SEEGER
ADMINISTRATIVE ASSISTANT

1045 North El Dorado, Room 5
Stockton, California 95202
(209) 464-7612
LOIS BAHYOUN
DISTRICT COORDINATOR

August 20, 1982

The Honorable Ron Marlenee
Ranking Minority Member
Committee on Agriculture
Subcommittee on Forests, Family Farms, and Energy
Room 1301, LHOB

Dear Ron:

Thank you for your kind words regarding my August 18th testimony on timber sales contract relief. I am sorry that a floor vote precluded you from asking me a question relating to my testimony, but I would be happy to answer that question now.

As stated in your August 19, 1982 letter, your question reads as follows:

> Have you received any communications from people within the timber industry in California in opposition to legislation that would terminate existing timber contracts?

I have indeed received a letter from Ray Crane of Crane Mills in Corning, California who has written to me to express his opposition to any form of timber sales contract relief. I would commend this letter to you for your information and ask that it be made part of the Subcommittee hearings record.

Again, my thanks for this opportunity to express my views on this critical issue. With best regards,

Sincerely,

Norm

NORMAN D. SHUMWAY
Member of Congress

NDS:jb

P. O. Box 318
Corning, Calif.
96021

Phone: Corning
Area 916
824 - 5427

MANUFACTURERS OF QUALITY FOREST PRODUCTS
Ponderosa and Sugar Pine — Douglas and White Fir — Incense Cedar

AUG [illegible]

August 11, 1982

Congressman Norman Shumway
1228 Longworth HOuse Office Bldg.
Washington, D. C. 20515

Dear Congressman Shumway:

Western Timber Association has sent me a copy of Bill Dennison's July 20th letter to you regarding Forest Service timber contracts in California. As purchasers of Forest Service timber on the Mendocino National Forest in California we would like to thank you for your interest in the plight of the forest products industry in the Western United States in general and California in particular.

We are members of Western Timber Association and I am a member of the WTA Board of Directors. Most purchasers of Forest Service timber are in tough shape - but we do not agree with what most of them are asking for, what Western Timber Association is working for, and what is being sought in proposed legislation by Oregon's Senator Hatfield. We think the industry needs relief for sure - but not welfare.

Enclosed are letters we have written to Senator Hatfield regarding our position on what purchasers of Federal timber need and are entitled to. Please review it and see if you don't agree.

Since writing those letters we attended another Forest Service Timber Sale last week - the Lake II Timber Sale containing 19.4 million board feet of timber. This was also a deficit sale, but Harwood Products, Branscomb, California, ran the bid price up over three-quarters of a million dollars in buying the Sale. That seems to me to be strange behavior from one of the companies that is undoubtedly supporting Senator Hatfield's legislation.

Sincerely,

CRANE MILLS

By Ray Crane
Ray Crane

RC:bet
enc.

P. O. Box 318
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MANUFACTURERS OF QUALITY FOREST PRODUCTS
Ponderosa and Sugar Pine — Douglas and White Fir — Incense Cedar

COPY

July 21, 1982

Senator Mark Hatfield
Senate Office Building
Washington, D. C. 20510

Dear Senator Hatfield:

Roseburg Lumber Company, with multiple plants in Oregon and Northern California, is typical of the many large buyers of government timber who are appealing to you that they need help with the high-priced timber sales they have purchased in the past few years and are now unable to operate at a profit. We attended a Forest Service timber sale today at which the high bidder was Roseburg Lumber Company - and it certainly didn't look to us like they needed financial help - and what we saw is not unusual this summer. Some of these companies seeking timber sale relief from you and other legislators are continuing to be bullish in bidding on these sales. Roseburg is only one of the many companies doing this.

The sale mentioned above was the 8.84 million foot Boswell Timber Sale on the Mendocino National Forest here in north central California. A copy of the timber sale prospectus is enclosed for your inspection. The prospectus clearly states on page 3 that:

> "It is estimated there will be $608,947.70 insufficient value of timber at advertised rates to permit purchasers to recover the total estimated cost and normal profit and risk allowance."

The balance of the prospectus tells prospective bidders that if the Forest Service can figure correctly (and they can) and someone buys the sale at the advertised rate total of $198,811.00 and operates the sale immediately the buyer would stand to lose over a half million dollars. That would be a big loss even for a multi-plant operator like Roseburg - yet they ran the price up from $198,811.00 to $376,000.00. Does that sound like the company is under financial strain and in need of the "welfare" that you are proposing in your bill?

Speculation at the sale was that Roseburg expects to be able through your efforts to eventually turn back 40% of their high priced timber sales - and that the price they paid for this sale (although high on today's market) would be less than many of the high priced sales they bid in several years ago and now cannot operate at a profit. Then when they are allowed to "turn back" 40% of their Government Timber Sales for re-sale with minor financial penalties, they will keep and operate this sale and turn back some of their older, even higher priced sales. Could be!

page 2

Then when the "turned back" sales are sold a second time they will probably be bid in at high prices by the party that purchased them in the first place. What justice.

Whatever game Roseburg Lumber Company and their peers are playing, it is making a farce of the Forest Service contract and procedures and further punishing Government timber buyers who did not indulge in speculative bidding in recent years.

It seems to us that adoption of legislation you are proposing will cost the taxpayers many millions of dollars and that even the prospect of your proposals being adopted is aggravating the industry's timber sale problems.

We have several high priced Government Timber Sales under contract ourselves, but we, like everyone else at a Forest Service or BLM Timber Sale, knew exactly what we were doing and what the possibilities were when we made the successful bid and signed the Timber Sale Contract. We should be expected to live with what we did of our own free will - or if we get help with these contracts in the interest of our employees, the county, and other local people and government bodies dependent on timber income, we should be required to repay the amount that is forgiven us when the market returns to normal and we are making money once again. Why not modify your proposed legislation accordingly?

Sincerely,

CRANE MILLS

By Ray Crane
Ray Crane

RC:bet
enc.

[redacted]

MANUFACTURERS OF QUALITY FOREST PRODUCTS

Ponderosa and Sugar Pine — Douglas and White Fir — Incense Cedar

June 25, 1982

Senator Mark Hatfield
Senate Office Building
Washington, D. C. 20510

Dear Senator Hatfield:

I am dismayed by your effort to "bail-out" purchasers of federal timber in the Western United States. We say this as a timber growing and lumber producing company that has been in business since 1931. At the present time we employ 120 people who are helping us manage our tree farm and produce lumber in our sawmill. We are also purchasers of federal timber - and have been since the company's inception.

There is no question that the industry you are trying to help needs help. Not only are these companies suffering in this recession - but the suffering is telegraphed to employees, communities, school districts, county road departments, local and state governments and others. But the free-gift type give-aways you are proposing will, if accepted, have some very serious long-term effects on the nation's economy.

For one thing the precedent set by your proposals would make a mockery of Forest Service and Bureau of Land Management timber sale contracts. All bidders on BLM and Forest Service timber sales in recent years have been there of their own free will. They knew that the timber had been appraised by a government agency and that bidding would start at a price based on that appraisal which allowed for a "normal" profit and risk allowance. Yet they bid, and in many cases bid up to ten times the advertised value of the timber in hopes that inflation would continue to bail them out as it had been doing and in apparent anticipation that the inflationary spiral the United States was in would continue. At every such timber sale there were bidders there like us who shook their heads in disbelief and said to each other - "how can these people do this and survive when we have the proverbial rainy day?" Well, the rainy day has come and you and your supporters are proposing to allow these speculative bidders to divorce themselves from their timber sale contracts with only very minor penalties. Had we and other conservative bidders at these timber sales known that if we had a recession all would be forgiven, we would have purchased more government timber sales and signed more contracts that didn't mean anything.

In summary on this point, if your bail-out proposals are accepted, a timber sale contract won't mean much when the economy recovers. Bidding on government timber sales will be wilder than ever and appraisals by knowledgeable government employees will mean less than nothing. A precedent will have been set that will insure chaos in the field of government timber sales and with contracts in other fields.

Another point that bothers us is the inconsistency of what you are proposing. In your political party and in the world of free enterprise, government give-aways are a "no-no". Yet, your proposals are a give-away of giant proportions.

Because of the multitude of people other than company owners affected we would be in favor of relief, but welfare - hell no! We would support proposals to give companies with troublesome government timber sales under their belt temporary relief until they can get back on their feet. But when they do get back on their feet and start making money again they should pay the federal agency from whom they bought their high priced timber the full price that was bid for that timber. Pure and simply - the price they bid should be the price they eventually pay. No one forced them to bid the high prices they are stuck with. These suffering companies should be given adequate time to repay this money and probably interest payments should not be required, but to provide almost total forgiveness as you are proposing would be an insult to the American taxpayer. A lot of them are in financial trouble too.

We still believe in our little corporation that "a deal is a deal" and that "a contract is a contract". You don't sign a document without having investigated whether or not it is desirable to do so - desirable under whatever circumstances might arise. Once your name is on the dotted line you are committed. These are troublesome times and we are constantly dismayed by the errosion of American principles that we used to think were our heritage. If your "bail-out" proposals become a reality there will be one more hallmark of the American free enterprise system (the business contract) that is going down the tubes.

Sincerely,

CRANE MILLS

By Ray Crane
Ray Crane

RC:bet

BEST DOCUMENT AVAILABLE

Congressional Research Service
The Library of Congress

Washington, D.C. 20540

August 4, 1982

TO : The Honorable James Weaver
Chairman, Subcommittee on Forests, Family Farms and Energy
House Committee on Agriculture

FROM : Robert E. Wolf
Assistant Chief, Environment and Natural Resources Policy Division

SUBJECT : Federal Timber Contracts Issues

In our July 19 meeting, you asked me to develop an analysis of the Federal timber contract situation, to compare the interest in terminating timber contracts with that leading to enactment of the 1935 law, to discuss its relation to the current situation, and to outline approaches that might be considered for current application. The enclosed report has been prepared according to your instructions.

Congressional Research Service
The Library of Congress

Washington, D.C. 20540

FEDERAL TIMBER CONTRACTS ISSUES

Prepared at the Instructions of
The Honorable James Weaver
Chairman, Subcommittee on Forests, Family Farms and Energy
House Committee on Agriculture

Robert E. Wolf
Assistant Chief
Environment and Natural Resources Policy Division
August 4, 1982

FEDERAL TIMBER CONTRACT ISSUES

GENERAL PRINCIPLES

Before analyzing Federal timber contract issues, it is essential to reach a determination of goals. If one wishes to stimulate employment and maintain the cut of timber at some level, then demand must be restored. As long as the demand for lumber and other materials remains well below the level of recent years, efforts to stimulate demand by increasing supplies or reducing timber held under contract may be fruitless and even counterproductive.

Both hardwood and softwood production are off because demand is so low. Imports of wood are principally softwoods. These have fallen. Exports are mainly softwood logs plus a small amount of lumber. These, too, are down, a reflection of the softened economies in the nations that have been markets for our wood.

If the solution advanced is the combined privilege of terminating Federal contracts, extending those not terminated, permitting firms to repurchase terminated contracts at a lower cost, and granting heretofore-not-allowed "ineffective purchaser road credits," the effect will be to aid firms eligible to benefit but not to create jobs or maintain county payments. Further, without standards to limit these benefits to firms with identified problems, an added adverse result would be to grant a subsidy to firms not in economic distress. Even with standards, it would be necessary to address cause and effect issues, since the result of termination of contracts would be to change competitive relations within specific areas and nationally. If standards were devised which also included performance requirements for sales not terminated, some but not all of the impacts that might be judged adverse from the concept of termination might be mitigated and some beneficial effects developed. However, adoption of a termination policy alone might not stimulate demand and production or create jobs and gross national product benefits.

If one assumes that wood demand will increase slowly because economic conditions will remain slack, interest rates will remain high, and a major Administration goal will continue to be curbing inflation with reduced Federal budget deficits, then interim efforts to mitigate impacts may still rank low in Administration priorities.

Current low cutting levels on Federal timber contracts—even if the contract price is affordable to the contract holder—given the low wood demand, mean that employment levels will remain lower than typical, payments to counties will be down, and, of course, Federal income will be lower than previously anticipated. From the standpoint of the contract holders, especially those firms that use mainly Federal timber, adverse economic consequences may be significant. Further, such firms, in a situation with low working capital and high fixed expenses (such as payment on equipment), may need a certain level of business in order to remain financially solvent. When a firm has alternative low cost private or Federal timber it can mill, it may be able to use it to bridge the poor economy.

If the Federal policy is to adopt a more lenient financial position on contract operations and payments than has already been developed, then not only will revenues and payments to dependent counties be reduced, but job stimulation will not occur.

Interregional competition and private/public timber competition interact in ways that cannot be controlled in an essentially unregulated forest economy.

Actions designed to regulate the total or parts of it introduce complications which have plusses and minuses from the standpoint of the various elements.

The long-term prognosis, especially in an area such as western Oregon, is that the private supply of timber in industry ownership will continue to decline; the non-industry private timber growing stock, while increasing, will not fill the near-term expected demand from local mills; and intensive timber management under present voluntary systems will still yield a reduced output for a period of years. Throwing additional Federal timber into the market is advanced by some as a way to relieve this falldown, but even this cannot be universally applied. Even where technically feasible, it may not bridge the expected gap. The current market downturn may thus merely move up the date when some of the mill capacity may close.

Under the National Forest Management Act (NFMA), increases in the cutting levels on each national forest must be decided individually, with consequences evaluated.

However, the current and recent-past budgets have been well below RPA levels, thus the optimum level of future growth on the national forests is not being realized, even in areas such as western Oregon which rank above the national average in productivity. These are activities which could have future benefits, especially if sound economic criteria are used to select actions which profitably enhance the resource base. The best long-term way to increase wood supplies is to grow the optimum level of timber.

In our discussions, you have emphasized your concern about roads. However, it should be noted that well designed forest access roads built under contract rather than awaiting timber sales—roads targeted to the portions of watersheds where the site is good and, in addition, there are stands with scattered but concentrated portions that are in a "no-growth, high age, high risk" condition—could be one of the more effective ways to actually raise cutting levels without a change in sustained yield constraints. Lack of access means that these stands remain isolated and unharvested, and thus, their volume is lost by the time the roads reach them. Annual mortality takes its toll regularly. While it is not financially sound to harvest all mortality, it makes sense to harvest where the economics make it profitable. On the other hand, the general theory that the national forests in an area such as western Oregon are filled with decadent timber, simply is not factually correct. As long as principal reliance is placed on using timber sales to secure needed access roads, the ability to harvest the optimum level of mortality will not be as high as is feasible. In areas where the timber is of slow growth and low economic return, special efforts to capture mortality will always be marginal in benefit, if there is any at all.

In addition, the present market situation demonstrates its effect on the value of timber. With a good road network in place, sales can be modulated to take advantage of high market conditions to move the type of timber that can best be sold then, while slacking off on it as the market turns down. It is not likely that a reliable way will be developed to eliminate cyclical aspects of the forest products industry in the next decade. Thus, access and management goals that can respond to the cyclical trends can be a stabilizing force.

THE CURRENT SITUATION

The current situation represents one of the most severe cyclical drops in construction that have also impacted the forest products industry. It is compounded because it was preceded by a period when some of the highest bids for Federal timber were made on a general industry basis, particulary in the Pacific Northwest's Douglas fir region.

Overall the downturn in the market is so pervasive that regions with little Federal timber are equally affected and hardwoods are as affected as softwoods.

It would be of no benefit to discuss the problem created by inability of the forest products industry to sense that the market was deteriorating, and failure of those bidding on Federal timber to be more prudent in their timber buying and other practices, in the face of an impending downturn in the market.

One facet of the situation is that a number of firms have bid timber so high that they now claim they cannot economically operate this timber in the current market. Some are more fortunate than others. Some have fee timber with a lower cost, or they have a significant volume of public timber or other contract timber acquired at costs that permit operation in this market.

The phenomenon that has existed is that bid rates and strong competition were raising prices offered to record highs, while at the same time, the uncut timber under contract was rising. Even today, after the agencies have reduced appraised prices in the heavily competitive Douglas fir region, bid rates still are two to three times the appraised price, and sales are actively purchased. One would expect, with the reduced demand, that not only would bidding be down, but also there would be a proliferation of no-bid sales.

With demand down, virtually every firm is producing at levels below last year's in terms of volume, and selling at a lower price. However, costs for labor and equipment have not declined. [redacted] financed firms, this produces special problems. Employment levels are down, due both to some outright mill closures and to reduced sales and manufacturing levels. This results in a persistent high level of unemployment, a major second facet of the situation.

Coupled with this is the fact that the budget for national forest activities, particularly resource capital enhancement which would improve future revenues, is not designed in the budget presented for 1983 to even modestly counter unemployment. For example, a major increase is for timber sales, when the demand and market are down. The budget proposes a greater reliance on timber purchaser roads, based on a 1.3 billion b.f. increase in timber sales. Timber contract procedures authorize but do not require operating sales within a defined time frame. Thus, purchasers with a weak working capital position, even if they are successful bidders, can hold the sale and need not proceed with roads. Actions to substantially increase the timber growth rates are not stressed, even though work, such as timber stand improvement, if concentrated on higher sites, would provide employment and benefits.

A third facet is the impact of reduced cutting generally on revenues, county and Federal. From the Federal standpoint, there are increased budget deficits, due to decreased revenues, as well as other problems. The Road and Trail Fund, under 16 U.S.C. 501, gets 10 percent of revenue, when appropriated. Reduced income increases the need for direct appropriations to maintain the existing road program levels. Decreased cutting, particularly when coupled with liberal extensions of contract time, delays not only receipt of payments for timber, but also Knutsen-Vandenberg Act collections, which are used to rehabilitate the cut-over contract area. This work is delayed, reducing employment that this work would otherwise provide to counteract unemployment. Also, the acreage that is held in a "no- or low-growth" status because the contract is not cut delays getting a new crop of timber started.

The impact of reduced cutting of private and public timber on local government revenues will vary with the tax structure of the county and the revenue importance of each. For example, in a State such as Oregon, which uses a yield tax paid on private timber, computed at a percentage of the value of timber cut, reduced private timber cutting reduces county funds from this source. When coupled with reduced F.S. and BLM cutting, where 25 percent and 50 percent of the revenue, respectively, are paid in lieu of taxes (16 U.S.C. 500 and 43 U.S.C. 1181), the Federal payments from these sources are reduced.

In the western Oregon counties, there are additional impacts that need to be recognized. The Federal payments in recent years have actually been more favorable per acre on Federal land than the level paid from private timber under the Oregon yield tax. If firms shift from Federal timber to private timber while reducing cutting overall, the county income is severely impacted. Until 1978, the 18 western Oregon counties had an ad valorem property tax system. A shift to cutting private timber would reduce the Federal income and payment, while a cutting shift from private to public timber would not reduce ad valorum tax revenues. Thus, in forest-yield-tax States, private decisions about whether to cut timber on private or Federal lands is significant to county tax revenue. These shifts can cause county income to drop substantially, compounding the general malaise created by the reduced timber production. Since 1978, this area has had a severance tax.

Since a firm with private and public timber is largely responsible for its determination of which timber to cut, both county and Federal income is affected by this private choice. A Federal policy that grants liberal extensions and relaxation of contract termination dates thus has fiscal impacts that need to be understood and measured, if unintended effects are not going to be precipitated.

Also, there is the effect of the Payment-in-Lieu-of Tax Act (3 U.S.C. 1601). It pays counties up to $0.75/acre. In counties where timber normally generates over $0.75/acre in regular F.S. payments or BLM public land payments (the Act is not applicable on the BLM O & C lands), PILT may pay only $0.10/acre. However, in counties where, under typical circumstances, regular payments are less than $0.75/acre, PILT brings them up to $0.75. In much of the Intermountain West, this is a typical situation. For these counties, fluctuations in timber revenues from regular Forest Service payments heretofore posed no problem, since payments are stabilized at $0.75/acre. This level may also compare very favorably with the payments in taxes made on similar private land.

However, the FY 1983 budget proposes no funds for PILT, a program managed for the Federal Government by the BLM. In FY 1982, if a county received $0.50/acre from the 25 percent of revenue allocated by the Forest Service under 16 U.S.C. 500, BLM would have paid under PILT an additional $0.15/acre to provide $0.75/acre in total. In FY 1983, if, due to reduced timber cutting levels, income to the Forest Service dropped so that payments to that county fell to $0.25/acre, that county would experience a $0.50/acre revenue drop, or a 67 percent decline, because PILT is eliminated from the budget. The Forest Service payments are dedicated to schools and roads, as each State legislature apportions them, while the PILT funds are not restricted.

The combined effects of reduced revenue from timber cutting to distribute to the counties and the elimination of the PILT net, may thus produce substantial impacts on local schools, road programs, and general government, especially in counties with a heavy public land base and prior revenue from timber.

Of course, in counties which have a heavy public land base which does not generate revenues, the elimination of the PILT safety net would also create a sudden and substantial drop in Federal public land payments. Even without the decline in timber revenues, these counties would be impacted by the elimination of PILT. At the other end of the spectrum, counties which got substantial payments from timber revenues at levels of from 5 to 15 times the PILT $0.75/acre floor, and now have these regular payments drop by as much as 50 percent, would also be severely impacted. In their case the impact would fall on the benefitting local school and road programs operated by the county.

There is a complex interconnected web in which the reduction in economic activity and the proposed budget policies together drive down Federal payments. A fundamental issue, which PILT only partially and imperfectly addressed, is the impact on local governments of a fluctuating "tax." However, this is not only a feature of the regular payments made by Forest Service, BLM, and other agencies, where a payment of a percentage of income is the basis for assistance; it is also a feature of "yield taxes" which have often been embraced by State and local governments, often at the urging of groups such as the forest industry.

The problems of "reforming" the tax system--property taxes and Federal payments in lieu of taxes--are numerous and generally understood; this is not the situation in which to describe them more fully. However, when revenues drop drastically, payments which are tied to revenues also drop, and the situation is exacerbated. In an era when payments are rising, this tends to mask whether payments are reasonably related to some desired standard.

In summary, the severe reduction in the demand for forest products produces a wide range of consequences. Those identified here are:

1. The impact on those made jobless,
2. The payments system, especially payments in lieu of taxes, and interaction with county finances, and
3. The impact on holders of timber contracts.

There are additional matters which some would urge be weighed in any cause and effect calculus; but, in terms of the issue examination requested for this analysis, these cited portray the situation.

POSSIBLE APPROACHES CURRENTLY IN PLACE OR UNDER DISCUSSION

Attention to the situation has been focused by industry proponents advancing a proposal to: (1) permit BLM and F.S. timber contract holders to terminate a percentage of contracts held with virtually no penalty or cost and repurchase them at a lower price, (2) extend remaining existing contracts without holding costs and operating requirements, and (3) grant to a group of firms the "ineffective purchaser road credits" they have held dating back to 1975 as a "public timber subsidy."

Ineffective Credit .

The purchaser credit issue can be quickly outlined. It applies only to Forest Service sales. "Ineffective" credit occurs when the appraised price for the timber, as computed by the agency, yields such a low price per M b.f. that the advertised rate must be raised to the agency minimum selling price. This "minimum" is set arbitrarily and seldom equals the actual cost to the agency to sell that timber. However, the effect from a potential buyer's standpoint is that the minimum price set reduces both the "estimated" profit and loss margin calculated and the allowance in the appraisal for the construction of specified roads needed to remove the timber and which would become permanent roads used for future sales. Without running through the equation, the net effect is that the agency tells a purchaser that the sale is a high-risk one, and further that, while it will cost an estimated $100,000 to build the specified roads, the "allowance" in the appraisal covers only 75 percent of the estimated cost.

Such sales are advertised only when an industry firm has affirmatively asked that the sale be offered. The bidders, and, of course, the one who won the contract, bought the sale with this clear understanding.

This has been the operating situation since October 13, 1964, when the National Forest Roads and Trails Act (16 U.S.C. 532-538, especially 535) became law. This authorized reduction of the appraised price of the timber by the estimated cost of roads that would become a part of the agency's permanent road system, is an alternative to constructing the road in advance of the sale with appropriated funds.

In 1975, a modification was made, adding one sentence to the end of 16 U.S.C. 535 that permitted the transfer of effective credit on one sale on a national forest by a purchaser to another sale he held on the same forest. This permitted him to build the road on one sale and more quickly recapture the working capital expended by receiving timber to offset this cost from another sale he was operating. The Ford administration and the Congress declined to adopt the original proposal advanced by Senator McClure that "ineffective" purchaser credit be granted for all contracts that were open and in force then as well as prospectively. The 1975 proposal to grant ineffective credit was more modest than the current proposal which would reach back at least 7 years and grant all credit not previously allowed. The argument advanced in 1975 for this grant was that the industry was in a depressed state.

One of the problems with the concept of retroactively, or prospectively granted purchaser credit in this situation is that road costs become guaranteed. The fiscal effect is that the Forest Service will be paying to have the timber cut. On the other hand, the industry argument is that cost estimates should reasonably reflect all legitimate costs the timber cutter will face, and that, if this were a normal sale, the full estimated road allowance would be used in setting the appraised rate. While this argument has an element of reason, there is a basic problem in selling timber on a commercial basis when the income does not cover costs.

In any event, a proposal to retroactively permit timber purchasers to receive a grant of timber equal to the "ineffective" purchaser credit for the past 7 years is unrelated to the alleged economic straits of the recipients.

In 1976, when the National Forest Management Act was enacted, Senator Church advanced what became section 14(i). This permits timber purchasers defined as "small businesses," when they purchase a sale, to elect to have the Forest Service do the road construction. This process can overcome the "ineffective" credit situation as well as the situation in which bidders no not believe that the "effective" credit covers the anticipated cost of the specified road. When a purchaser uses 14(i), the Forest Service builds the road with appropriated funds, thus the purchaser avoids the working capital drain. Then, when he cuts the timber, the price paid is raised by the allowance in the appraisal for the "effective" road credit. The current budget shows that, out of a 1981 $256,217,000 effective timber purchaser road credit base, the Forest Service had turned back to it $46,217,000 worth of roads under section 14(i), or 18 percent of the total.

The Forest Service has permitted technically eligible purchasers to use sec. 14(i). When the purchaser has not elected to use it and there is substantial "ineffective" credit, the F.S. augments the allowance to build the road, by providing culverts, etc., so that the calculated estimated profit and risk allowance equals 75 percent of the norm in appraisals. Currently, due to the shortage of road funds, augmentation is only 50 percent of the normal profit allowance. The effect of this procedure is to subsidize to some degree the sale of timber sold at minimum prices.

Thus, while as a practical matter, the bulk of the roads built on the national forests are funded by reductions in the price of the timber to offset the estimated cost of the road, with the offset limited to "effective" credit in minimum price sales, mechanisms exist which permit the timber buyers who must have a permanent road in before they can start removing timber, to avoid the working capital allocation this practice requires.

Further, there are fiscal implications to the process because the use of timber to be cut later under a sale as a substitute for building roads in advance with appropriated funds, masks a $240,000,000 annual road construction program. From 1975 through 1981, this was an "on-budget" item. Since 1982, as a result of a Senate amendment, purchaser credit roads have been an off-budget item. The sum involved is small in relation to the total budget. In the quest to control the total budget, off-budget items frustrate those who believe that budgets and deficits should be under tighter fiscal discipline. For example, the proposed Constitutional amendment will control off-budget outlays.

Contract Extensions

Another approach to dealing with the current down wood market has been the executive action to grant wholesale extensions of time on existing timber contracts, coupled with a relaxation of financial requirements on sales extended when they reach their original termination date. Prior to this spring when a contract reached its original termination date, if it was extended, the holder had to pay the entire balance due. Under the Comptroller General's ruling (B207165, May 3, 1982), sought by the U.S.D.A., holds as sufficient payment of only interest on the unpaid balance. This ruling gives firms significatnt financial benefits. In addition, the blanket extension of time granted and additional ones proposed, overturn a policy that earlier had strong industry support, to limit severely extensions.

Increased Sales

A third area is the proposal in the FY 1983 budget to raise national forest timber sales from 11.0 to 12.3 billion b.f. The budget was formulated in calendar year 1981. It is understood that the basis for the proposed increase was the expectation that the economic program of the President was already beginning to stimulate the economy; and that by FY 1983, the economy, including housing starts, would be in high gear, with inflation substantially dampened, interest rates down, and the budget deficits lower than those in the prior years. The most sanguine forecasters now do not see these goals as attainable. The more pessimistic ones forecast a continued difficult period ahead, to include interest rates at levels too high to substantially restore housing starts to levels that will increase lumber demand appreciably.

In this situation, increased timber sales, coupled with record high volumes of Federal timber uncut under contract, suggest that the sale of an added volume and low price might simply increase the uncut volume under contract.

The argument for the higher sale level has now shifted to the concept that it will place a volume on the market sufficiently large to dampen bidding and make available lower cost timber to firms that are in a position to buy Federal timber. From this flows the theory that these firms will be able to buy the currently sold Federal timber at prices low enough to manufacture it in the current low product market.

Sorting out the strands of the various theories to determine whether they weave a viable economic fabric for the forest products industry is fraught with speculation. If the effect of a larger FY 1983 sales program is to drive down timber costs, thus enabling the portion of the industry that secures Federal timber to refrain from operating higher cost Federal timber now under contract, substantial benefits will have been provided to that segment of this industry.

However, if prices do not ultimately rebound for products to levels consistent with the prices bid for timber already under contract, some contract holders may still have future problems. The number and the extent of the problems each might have would depend on several factors, such as the quantity and cost of fee and other timber available and their tax and financial circumstances.

If product prices do rebound, then the high-cost timber now held would later flow into the market as long as the agencies maintained an extension policy that did not force cutting at a time when the overall effect would be to force a particular firm into insolvency.

However, it needs to be borne in mind that on April 15, 1982, U.S.D.A. policy, and later, U.S.D.I. policies, were revised to tighten up the financial terms of sales. Thus, unless the executive agencies are prepared to reverse the rules just adopted, or substantially revise them, relief may be frustrated for many. The tighter financial requirements were also formulated when the Administration's prognostication for the future was that the market would regain strength and that tighter sale financial constraints were desirable to dampen speculative bidding and actions by contract holders which resulted in piling up uncut volumes under contract with small holding costs. While the industry, just a relatively few months ago, strongly supported these changes, there has been a substantial shift in position by many early supporters. Proposals that contracts be terminated without damages or costs, and no-cost extensions are a 180-degree shift in position.

What exists at this point, therefore, is a series of approaches; some are in the talking and formulative stage, such as termination, extension, and ineffective purchaser credit; others are in the proposed stage, such as the 1983 budget (which, as of this date, has not been reported in the House or Senate); and others are in the operational or partly implemented stage, such as extensions, lower carrying costs when termination date arrives, and tighter contract and bidding terms.

There has been no assessment of "cost" or benefit of the actions taken to date and there have been divergent assessments of the possible costs of some of the proposals being formulated. A definitive assessment of the value of the actions taken to date, as well as one of the probable benefits or costs and impacts of proposed approaches to meet perceived problems would help in selecting additional actions that might be put forward. Because the basic data on which such an evaluation could best be made is in the hands of the Federal agencies, they are in the best position to develop the costs and benefits of policies in operation.

ADDITIONAL ACTIONS THAT MAY BE CONSIDERED

The key to whether actions already proposed, either officially or by interest groups, or other actions that may be put forward should be implemented depends on a judgment as to whether economic conditions require a change in course, minor or major. The fundamental position of the Administration, as put forth in recent months and currently, is that the factors which have adversely affected the economy of the forest products industry will be sufficiently ameliorated by actions the Administration has already secured, so that no change in the rate or course is required. The macro-policies are judged to be the key to attaining such things as increased construction, and this will lead to a restored demand for wood. The fact that this is disputed by at least the segment of the forest products industry that makes substantial use of Federal timber is evidenced by the kinds of proposals they have put forward for a change in the way Federal timber contracts are handled, though many in the industry generally support the Administration's macro-policy.

The basic position taken by this segment of the industry is that it is prevented from operating at even its share of the current market because it has bid timber on Federal forests at such a high price in the competitive auctions that it can only be operated at a loss.

There is substantial unemployment in forest production plants, along with drastically reduced output. This is an industry-wide situation, not limited to firms that use Federal timber.

For the areas where Federal timber is significant:

(1) There is a substantial reduction in the rate at which timber previously contracted is being cut. This has been a trend for at least the last 3 years, marked by an increase in uncut timber under contract and declining production at

mills. There are no specific signs that this situation is changing or is likely to change appreciably for at least several months.

(2) There is substantial unemployment among people who customarily work in logging and milling forest products, with no sign that this will be ameliorated.

(3) While there have been serious mill production reductions and plant closures, there is a paucity of data that actual bankruptcies, or the less damaging reorganizations, have occurred under the Bankruptcy Act. However, based on prior recessions, it would appear likely that these will become a strong reality following the pattern of affecting the undercapitalized, weakly financed firms first. In some areas where timber supplies are short and have been for a long time, reduced mill capacity, as unpleasant as it is for the affected plant's management and employees, may act to reduce pressure to overcut available timber supplies. On the other hand, a severe loss of modern, efficient plant capacity, as compared to outmoded, inefficient plants, can have adverse cost impacts, if the loss is large.

(4) The reduced revenues from reduced cutting on Federal forests have an impact on the budgets of both the Federal Government and the counties, since under Federal law, counties share in revenues as payments-in-lieu of taxes. This adds to the problems of counties in depressed areas.

(5) Timber cutting on Federal forests is concentrated on lands with marketable mature trees. When cutting falls off, there are several delays that have adverse impacts. Road building is delayed, thus setting back development for future sales that could be made when the market rebounds. The delay in cutting on sites where current growth is well below potential levels delays reforestation and the start of a new crop of trees that will grow at a high rate. If the sale contains a significant volume of timber affected by insects and disease, marketable

volume is lost, with a reduction in both anticipated revenue and a wood resource that might be converted to an economically useful product.

Thus, if it is judged that these five conditions, or any of them, may prevail for a sufficient period, or may be of sufficient intensity to cause irreparable damage, or that a "no action" course would be more costly, then it may be appropriate to devise solutions that meet cost and benefit tests as well as equity considerations. If this is judged to be the situation, there are some approaches readily within reach of the Federal Government

What the outline shows is that the situation affects: people, because they are unemployed; local governments, because they share in Federal revenues; and firms that buy and manufacture timber, because their market and output have shrunk. The proposal that has been the focus of attention is that advanced by an element of the forest industry, which assists firms by granting them blanket relief in three aspects of contractual relations.

PROVIDING EMPLOYMENT TO THE JOBLESS IN THE INDUSTRY

There are six program elements of the Forest Service budget for FY 1983 that are about $520,000,000 below the Resource Planning Act levels. These are not all of the programs, but rather represent the types of activities that:

(a) constitute investments in increased productivity from forest land, or perform essential maintenance of facilities which enhance resource outputs, or make capital investments that help maintain resource production;

(b) are the types of work that can be quickly started and quickly stopped if economic conditions improve;

(c) generally can be contracted, thus providing private employment; and

(d) utilize equipment and skills associated with forest products industry.

Thus, in addition to supplying employment, these will benefit local communities and industry now and in the future. They would, however, require direct budget expenditures. Each of the programs is listed below, with a brief outline of its relation to the current situation. Dollars shown are in thousands.

1. Timber Stand Improvement

FY 1982	FY 1983	RPA Level	RPA Percentage	1983 Difference from 1982	1983 Difference from RPA
$22,334	$23,075	$46,257	50	+ $741	- $23,182

While the proposed 1983 budget is 3 percent higher than the 1982 appropriation, it falls at 50 percent of the RPA level. The increase simply helps partially overcome the effects of inflation. Further, much of the stand improvement work is done with funds collected on timber contract areas and relies on revenue allocations under the Knutsen Vandenberg Act, and this work will be reduced, due to the reduced rate of cutting. In fact, it is highly likely that the total work that will be accomplished in 1983 will be below 1982 levels when the Knutsen Vandenberg (K-V) and appropriated accounts are considered together.

A delay in timber stand improvement work sets back stand treatment that would enhance the rate of growth and quality of trees. If the work is timely, the level of growth is raised and cutting levels can be increased in the near future.

The work is done substantially by contract. In contrast with reforestation, which relies on advanced planting of seedlings to increase work, stand improvement can begin without a wait of a year or more. Appropriated funds are used to treat areas that cannot be done under the more limited K-V authority which applies only to timber sale areas.

The Forest Service has a substantial area of high site land--land capable of growing over 50 cubic feet of wood annually—where speeded up and increased investments will more than pay for themselves in increased later revenues. The work can be done by persons trained in logging, and it does not create a situation where the jobless that would be employed have to migrate to secure meaningful employment.

Companies that have forest management expertise, as well as those that have traditionally bid on such work as a specialty, could apply for such contracts.

2. Facility Maintenance

FY 1982	FY 1983	RPA Level	RPA Percentage	1983 Difference from 1982	1983 Difference from RPA
$11,717	$13,663	$25,656	52	+ $1,946	- $11,993

Maintenance of facilities is proposed for a 16-percent increase over the 1982 appropriation, but 1983 funding would only attain 52 percent of the RPA level. This is an activity which has long been funded well below RPA levels, and the deterioration of facilities adds future costs for structure replacement.

The type of work is similar to that for which people employed in the forest industry have many of the desired skills, and the facilities are part of the back-up base for an effective resource management. A substantial part of this backlog is in areas where there would be high forest and home building industry unemployment.

The type of structure and repairs needed would use some wood material. While the volume required would be low in national terms, it would add a small stimulus to the wood market.

3. Recreation Use

FY 1982	FY 1983	RPA Level	RPA Percentage	1983 Difference from 1982	1983 Difference from RPA
$88,294	$97,935	$194,648	50	+ $6,641	- $96,713

This work is to be funded at a level 10 percent above the 1982 appropriation, but at only 50 percent of the RPA level. Because of the nature of recreational facilities, maintenance of them relies heavily on wood. Otherwise, the rationale for the work is the same as the prior item, except that these facilities are not related to timber production.

4. Road and Trail Maintenance

	FY 1982	FY 1983	RPA Level	RPA Percentage	1983 Difference from 1982	1983 Difference from RPA
Roads	$63,167	$61,640	$119,715	51	- $1,527	- $58,075
Trails	10,719	7,785	21,672	36	- 2,934	- 13,887

Road and trail maintenance are both to be funded below the 1982 appropriation. Roads are to be cut 3 percent and funded at 51 percent of the RPA level; trails are to be cut 28 percent and funded at only 36 percent of the RPA level. Roads constitute 84 percent of the combined RPA level and 88 percent of the proposed budget expenditures for the two elements.

Trails serve recreation as well as many essential management access needs. Roads are used substantially for timber resource development and forest product transportation.

Maintenance of these facilities requires equipment and persons with job skills associated with logging. Many logging firms work as contractors for timber firms or as independent loggers. When unemployed, due to their weak financial and working capital situations, they are among the first to fold as truck and equipment repossessions overtake them.

Adequate maintenance of existing roads and trails not only forestalls facility deterioration, but also prevents soil erosion and other damage to forest and stream conditions.

Proper maintenance of roads in areas where timber can be harvested will help reduce transportation costs as well as later costs for extensive rehabilitation due to deterioration.

5. Direct Road and Trail Construction

					1983 Difference from	
	FY 1982	FY 1983	RPA Level	RPA Percentage	1982	RPA
Roads	$232,917	$271,575	$371,427	73	+ $38,658	- $99,852
Trails	3,935	4,864	20,359	24	929	15,495

The 1983 budget proposes a 16-percent increase in road construction, but would still fund work at only 73 percent of the RPA level. This is a modest increase over 1982. Trails are proposed at a 23-percent increase, but this work is to be funded at only 24 percent of the RPA level. Roads are 94 percent of the combined items, in terms of the RPA level, but are 98 percent of the road and trail proposed budget.

Typically, the road work is done by contractors, while much of the trail construction is done directly by the Forest Service. More significantly, a major part of the construction budget is allocated to engineering services for timber purchaser roads. Thus, it would be incorrect to assume that this is a fund for direct construction. The Forest Service relies almost entirely on timber purchasers to build roads.

A major forest management problem is that roads built with direct appropriations show as a budget item, while roads built by timber purchasers do not, since they went "off budget" in FY 1982. Another aspect is that timber purchasers have preferred to build roads. The road allowance is incorporated in the appraisal and is not subject to a separate bid. Thus, it affords in some cases a greater opportunity to control costs. Further, having roads in the timber contract increases working capital needs and, to some extent, limits sale participation.

The long-term reliance on timber purchasers to build roads as a part of timber sales, however, converts many timber sales into what may virtually be a road contract.

Of even greater significance is that using the timber sale program to secure roads relies on constructing roads from the low to the high end of the drainage, as timber is sold, rather than on planned, orderly development of a road network targeted toward the stands that should be harvested early to avoid significant mortality losses.

The road program has been one of considerable controversy which has two aspects. The industry has long contended that Forest Service road standards are too high. However, a land manager has a different interest than a timber contractor. Roads built to proper standards not only reduce transportation costs for all vehicles that use them, they minimize site impacts from erosion and increase resource utilization flexibility.

Conservation groups have opposed Forest Service direct appropriations and contract construction on the theory that denying funds would reduce the rate at which areas that they believe should not be developed will be cut. However, timber purchaser road construction controverts this theory. The standards for deciding where and when to construct roads that have as their major purpose the removal of timber are not well set forth and understood by the contending groups. For example, by targeting roads into only areas able to grow wood at a rate in excess of 50 cubic feet annually, much of the concern over roads penetrating de facto wilderness areas might be allayed.

On a more positive basis, applying this standard to target roads into areas with measured high mortality loss and low growth rates, and constructing roads substantially ahead of need would enhance the agency's ability to take advantage of market conditions and to harvest the maximum volume of timber that would be lost to mortality before a timber sale road would develop a drainage. In addition, the agency would be able to respond to opportunities to accelerate sales as the market improved and make more small sales which could be quickly removed and manufactured.

In effect, stockpiling roads might be a more effective way to assist the industry in meeting market changes than stockpiling timber uncut under contract. In the current situation, many logging firms would be in a position to bid effectively on forest road contracts, thus putting their employees back to work, as a substitute for unemployment, welfare, and other governmental costs.

5. Timber Purchaser Roads

This topic was outlined earlier, including the way section 14(i) of the NFMA applies. The delay in cutting timber held under contract also has the effect of delaying the construction of roads under timber contracts. This, in turn, delays the completion of sales, and restricts the ability of the Forest Service to make additional sales dependent on timely building of a road under a timber contract.

A principal reason for a firm holding timber contracts to delay the construction of a road is the working capital commitment which cannot be recaptured until a commensurate value of timber is cut from that sale or another sale on the same forest. Where a firm exercises section 14(i) of the NFMA when a sale is bought, it relinquishes the road building; the agency builds the road, and the firm pays a price for the timber, which is composed of the bid rate plus the "effective road credit," with payment delayed until the timber is cut.

A number of firms have built roads under the timber contract, since in the current economic situation they could secure favorable private contracts to build the road and because they had other sales at prices they could afford to cut where they could apply the road credit earned.

In "deficit" sales, the Forest Service practice has been, where the profit allowance is below 75 percent of the norm, to "augment" the road allowance to help overcome the "ineffective purchaser credit" so that an estimated profit allowance of 75 percent of the norm is achieved--at least in theory. Currently, it is understood that the augmentation has been less, with only 50 percent of the profit allowance maintained.

"Deficit" sales are well advertised as such. Even before the sale is made, an affirmative report must be made to the Forest Service by a potential bidder. Therefore, it cannot be argued that the agency is making deficit sales without adequate notice to all potential bidders. Firms in the areas where the full road credit is not granted have argued for some time that they should receive it, even if it means subsidizing the timber. However, especially in light of the Forest Service augmentation practice, these sales now may often cost the Government more than the net income.

Using a standard of established need, consideration could be given to permitting firms that did not elect to have the Forest Service build a road under section 14(i) of the NFMA to petition the Secretary to be relieved of road construction requirements. Then the price they would pay for the timber, when cut, would be the bid rate plus the effective road credit. The Forest Service would bear the current cost of building the road. The effect would be to relieve such firms of the working capital drain in this down market, but increase the Government's cost now with recapture of the expense delayed until the timber is cut.

An action such as this would require an amendment to the NFMA. It could, however, provide jobs and secure timely building of roads with benefits to the forest products industry and the Forest Service in conducting future sales. Two benefits to the industry would be reduced working capital drain and the ability to commence cutting a sale as soon as the market improved.

The sum of the job stimulation activities that could be undertaken which would significantly improve the forest as an asset and aid local cummunities and the industry are:

1. Timber Stand Improvement	+ $ 23,182,000	
2. Facility Maintenance	+ 11,993,000	
3. Recreation Use	+ 96,713,000	
4. Road and Trail Maintenance	+ 71,962,000	
5. Direct Road and Trail Construction	+ 115,077,000	
6. Takeover Timber Purchase Construction	+ 200,000,000	(est.)
TOTAL	$518,972,000	

The jobs provided would directly help those unemployed, the industry could benefit by up to $200,000,000 of deferred working capital allocations for roads, and it could also later benefit by an improved resource yield and agency ability to market timber on an improved demand. Of course, a lesser sum and different allocation could be used than the total RPA deficiency, with total program considering costs of other alternatives.

COUNTY REVENUES

A number of Federal budgetary changes are significantly affecting the payments that the Federal Government has heretofore made to counties for various local programs. This will outline only those directly related to timber.

One of the targets for reduction in President Reagan's 1982 budget as well as the 1983 budget is to eliminate PILT. In FY 1982 the House agreed with the President's budget reduction, the Senate did not, and the level of 1982 was about the same as in 1981.

There is an interaction, especially in States with timber severance taxes, between private and public timber cutting and tax revenue. The severance tax is a percentage of the value of private timber cut and the BLM and the Forest Service regular payments similarly are based on a percentage of the value of timber cut.

The PILT payment is a Federal supplement at $0.75 per acre, applicable when the regular Forest Service/BLM payments are under $0.75 per acre. Thus, in areas where the regular payments are less then this sum, PILT functions as the ad valorem tax does on private land, providing a stable payment. In areas such as Oregon, Washington and California, where severance taxes apply, a drop in private or public cutting reduces the tax revenue and a shift from private to public timber or visa versa, can have revenue impacts on the local government which it cannot control.

With timber cutting levels generally down, reduced revenues to local governments are certain. If Federal policy permits deferring cutting public timber, the regular payment will drop. Where this payment is greater than $0.75 per acre and greater than the severance tax paid on private timber, there may be a larger drop in local "tax" revenue than if Federal policy required Federal timber cutting to be proportionately continued.

If the Congress agress with the Administration's recommendation to eliminate PILT, then in counties getting over $0.75 per acre in regular Federal payments, the $0.10 per acre PILT supplement they normally get will be lost. This will be a small loss. Even more critically, in the counties where the PILT payment is vital to getting up to the $0.75 per acre level, the elimination of PILT combined with the reduced regular income from shared revenues will drop Federal payments even more dramatically.

The forest industry proposal exacerbates the problems of local governments faced with either or both (1) reduced severance tax revenues from reduced private cutting and (2) reduced Federal cutting through termination, as well as (3) reduced timber price, and liberal extensions without cutting requirements. On the other hand the proposal to grant ineffective road credit, it might be successfully argued in litigation, creates an entitlement of the counties to an additional payment of 25 percent of the sum awarded as due them under 16 U.S.C. 500.

There has been no analysis made by the industry proponents or by executive agencies of the effect (a) the industry proposals, (b) the sharp market decline, (c) PILT elimination and (d) the reduced regular revenue will have on local governments and the "Federalism" and "good neighbor" policies of the National Administration.

Within the available time, it is not possible to make specific estimates. However, it can be noted that there may be substantial declines, the scope and location of which will depend on numerous circumstances.

PILT, if not funded, will reduce payments nationwide by about $100,000,000. The impact will be small in the heavy timber producing counties with national forest lands in the Pacific Coast and Mountain States, which receive over $0.75 per acre from the National Forests, especially those where payments are several dollars per acre in Oregon, Washington and Northern California. Their loss from eliminating PILT will be only $0.10 per acre.

The 2,500,000 acres in the Oregon and California Grant Lands managed by BLM in Western Oregon pays about $100,000,000 annually to 18 counties whose 50 percent of revenue is close to $40.00 per acre per year. One rough measure of the benefits they provide is that their payments are equal to about $100 per thousand board foot annually compared to only about $20.00 per thousand board foot paid by severance taxes on private timber. Also of note is that the Forest Service manages 20 percent of the O & C lands (the so-called controverted lands), with the revenues turned over to BLM to distribute 50 percent to the counties. Thus reductions in timber prices, terminations and extensions which add up to gross revenue delays or reductions, can substantially affect these 18 counties and most especially Douglas, Jackson, Lane and Josephine, which receive over 66 percent of the payments. A 50 percent drop in revenue would reduce payments to these 18 counties by about $49,000,000 with the five counties losing about $33,000,000.

BLM's 75,000 acre Coos Bay Wagon Road Grant is in Douglas and Coos County. These payments are on the same base as the private timber severance tax and thus a shift here is the same as reduced private cutting.

The National Forests pay 25 percent of income for Western Oregon. Their lands are in 16 of the 18 Western Oregon counties. In 1980 these 4.8 million acres paid $61,500,000 or about $12.70 per acre. On a timber cut basis, payments approximated $40.00 per thousand board foot compared to the private severance tax level of $20.00 per thousand board foot.

It would take a series of State by State calculations to estimate the effects of both reduced and shifting cutting from one type ownership to another but it is readily apparent that significant shifts can and may well occur.

For example, in Western Oregon alone for 1980, the combined BLM/Forest Service payments from approximately 2.6 billion board foot cut totalled about $160,000,000 and averaged $62.00 per thousand board foot. However, payments from the 2.5 billion board foot cut on private forests were only $50,000,000 or $20.00 per thousand board foot. Because the BLM O & C formula pays 50 percent, timber cut from these lands returns more than Forest Service timber which pays only 25 percent.

Of special note is that the WRA proposal and others do not take into account the impacts on local governments.

An alternative to the wholesale grant of price and timber cutting relief to industry proposed by the Western Resource Alliance would be to reach a judgment on the size of a relief package, if public interest standards concluded that relief was desirable, and then decide what portion would be used to maintain local governments which have strained financial circumstances.

One scenario is an adoption of a policy that is implied by the WRA proposal which drops the value of timber to be cut from Federal lands substantially and does not require cutting on contracts held. The issue then to be addressed is whether the "good neighbor" policy requires the Federal Government to make a payment, drawn as an advance on future revenues, or as an outright grant, which maintains a level of payment to counties at some arbitrary level defined as equitable in the circumstances.

Another scenario is one which adopts in modified form some of the WRA concepts but requires each contract holder getting specified relief to cut at certain levels on the private and public timber held under a policy designed to ameliorate as much as possible the revenue reductions the couties may experience. Such a policy could be limited in application to counties where public timber is a defined significant portion of the tax revenue.

Consideration could be given to creation of a special fund which permits short term compensation to hard pressed local governments which would be either outright grants or advances on future payments. At the same time, there could be incorporated into the authority provisions that would assure that patterns of cutting on private and public lands are not permitted to shift ratios so substantially as to exacerbate local government financial problems. This would involve Federal-State cooperation. In a State such as Oregon where the severance tax is State administered, development of solid information on the value of timber to be cut and the minimum cutting schedules expected.

Given the likely drop in revenues to local governments a solution which ignores these impacts and deals simply with timber company problems would treat only one aspect of the situation.

In any event, the dimensions of industry proposals suggest that if it is to be given relief that reduces the price of timber now under contract and/or (2) relief from cutting non-terminated contracts by their original termination date, then consideration needs to be given to the effects on counties. This, in many cases, can be significant and long lasting.

It is estimated that county revenue losses could run will over $100,000,000 annually, with impacts concentrated in about 50 counties.

RELIEF TO TIMBER COMPANIES

This proposal is novel. While relief was authorized on Forest Service contracts in 1935, conditions were different. The Nation was 6 years into a major depression. Recovery was slow. Federal timber was only 2 percent of the Nation's supply, even in the boom of the mid-1920s. There is scant history on how the few firms that benefitted were selected and whether any were denied relief. The Administration of the program was by USDA with limited Congressional guidance. There was a galaxy of relief programs already in operation and a number of national recovery programs designed to restore demand and bolster the economy.

The proposals that are currently being advanced are based on the Secretary of the Interior acting for timber contracts for public lands and the Secretary of Agriculture acting for contracts on national forest lands. The purpose is to grant substantial financial relief to firms with Federal timber contracts. Although many of them have operations in several States, some have substantial fee timber, some have other private timber, or are conglomerates with operations in other fields and even other nations. The bulk of the firms, however, are engaged solely in the forest products industry.

Attempting to treat the issue through timber contracts places a special burden on the Secretary of Agriculture and Interior and the Forest Service and BLM, which are land and resource managing agencies. Developing and applying economic relief benefits to firms involves determinations that go well beyond timber sale contract and timber price issues on only Federal timber.

One claimed advantage to dealing with the issue in terms of the forest agencies and contracts is that it appears not to have a budget cost and impact. In fact this approach by reducing revenue does have a budget impact.

One the other hand, to the degree that public interest rationale exists for Federal aid to forest products firms in financial difficulty, it could apply as well to firms without Federal timber. The benefits planned under proposals could flow to firms with relatively little Federal timber.

The proposals require changes in long standing and well settled contract arrangements for the sale of timber, changes in timber contract pricing, and changes in policies for executing contracts. A more direct and less complicated approach would be to place responsibility for giving aid to companies, as well as local governments, in an agency such as the Department of Commerce using a temporary agency. One Secretary, whose mission function is oriented to the business structure, would then make determinations that are proposed to be shared by two, whose major mission is resources.

The normal process, if the policy is to aid companies, is (1) define aid eligibility standards, (2) define those in need of aid (3) provide that aid, and (4) assure the aid will meet the purpose for which it is granted. An adaptation of the industry proposal, under this approach, would allow a firms's Federal timber contracts to stand. The financial aid to a firm with Federal timber would be transferred by the Secretary of Commerce as an offset against the price to be paid for Federal timber.

The issue that would be clearly addressed as it was in the Chrysler case, would be the financial situation of a company after it had been found ailing, based on an independent examination of its condition. The determination of the need for aid would be conducted in an atmosphere where the person responsible for granting the aid did not have direct contractual relations with the recipient. The Secretary of Commerce could enlist personnel with specialized experience in dealing with failing company problems and thus devise not only financial aid but also other criteria that assisted the firm in improving its position. In operation of such a program, the Secretary might be authorized to use personnel such as those who have volunteered for the President's Private Sector Survey, both on a salaried and non-salaried basis, who have the special business expertise needed to make deteminations that balance private and public interests.

Under an approach such as this the Secretary of Commerce might also be empowered to request that the Secretaries of Agriculture and Interior take cooperative action and even, in special cases, modify needed elements of some timber contracts.

Further, it might be desirable to require that the rules and regulations be promptly developed, and that there be an adequate opportunity for public participation and comment before final rules are put into operation.

The principal advantage of dealing with the situation in terms of the specific company and its problems is that fiscal control is maintained while meeting the needs that have been determined by public policy to be addressed. The proposals that have been made are supposed to be one time arrangements, but their effects on public policy can be long lasting. Under any situation there will be problems in securing fair administration, as viewed especially by those who may not qualify for aid or are denied aid. Thus, placing responsibility in an independent agency rather than one which sells timber regularly to these firms, would help prevent contentions that decisions were rendered based on a prior or an anticipated future relationship.

TERMINATION OF EXISTING CONTRACTS

A threshold policy issue is whether, in our current situation, it is sound public policy to permit firms holding Federal timber contracts to terminate them. Related to this is whether such firms should escape assessment of some or all damages and costs the Federal Government would bear. Another factor is the effect this will have on local governments. A third concerns the equity of such programs on firms holding chiefly private timber.

If an affirmative answer is given by the Administration to the concept of termination, then the nature of the relief becomes the issue to be addressed.

While there are examples of Federal subsidies that are granted without guides or conditions, these do not establish that it is sound public policy to add further programs that do not have sideboards.

The origin of the idea that any timber firm ought to be able to terminate 40 percent of the Federal timber volume it holds is not known. The idea should be examined for qualities that commends it over some other approach, if termination is in the public interest.

Attached is an analysis of the benefits it is estimated would be conferred on 105 companies with 50 million board foot or more uncut under BLM/Forest Service contracts located in the Northwest. It is based mainly on data the Western Resource Alliance had extracted from agency records by the Timber Data Corporation. My analysis of this data, as it is outlined, shows that these 105 firms have about 22 billion board foot uncut under contract. This is about 60 percent of the 35 billion board foot uncut under short term contracts. If the firms terminated their full quota under the 40 percent + 10 million board foot standard, they would be relieved of at least $2.4 billion worth of contractual committments. If they bought this volume back at $50.00 thousand board foot their benefit would be about $1.9 billion. Application of the WRA formula nationwide would provide industry with total benefits that could, at maximum, approach $3 billion in reduced timber costs. Put in another way, the Federal revenues might be impacted by this amount. The counties would be impacted by at least 25 percent of that sum or as much as $700,000,000.

Relief proposals that could have this outside cost and impact are at a sufficiently high level that consideration needs to be given, if public policy suggets relief, to requiring that recipients meet some standard of financial disability before aid is granted.

Whether Congress ought to set fairly rigid standards into law, or whether it should set guides which permit the executive to set the standards by regulation is a fair public policy issue which can be addressed in several ways.

There are problems with a carte blanche freedom to grant relief and there are problems with devising a statutory formula. Also, a technique would be to limit to total amount of relief in dollar terms, directing the Secretary to apportion up to, but not necessarily all of it, under regulations that are promulgated only after public hearings and consultation with local governments and others. Also there could be limits on the amount of relief granted to any one firm in one year, without an assurance that additional relief will be forthcoming.

Further relief could be tied to procedures applicable to reorganization under the Federal Bankruptcy Act, including a display of the financial condition of the firm. There could be procedures that assure that the recipient of relief adopts reforms that improve its financial situation and meet specified obligations. Controls could be required that prevent a firm from getting relief, then contending for tax purposes it has been damaged by the relief.

A case can be made that termination of contracts ought to be an action of last resort following the use of extension, construction or existing controls of specified roads by the agency, actions that prevent firms from bidding and stockpiling uncut timber under contract which compounds their financial straits and other reform actions.

EXTENSIONS

A second part of the WRA proposal is that firms would secure an additional blanket 5 years extension of cutting periods for contracts not terminated and be excused from all payments until at least the third year. Under contracts, holding costs are small until the end of a original contract term. As has been noted, prior payments then required were based on payment in full for the uncut balance. Now these have been reduced to payment of only interest on the uncut value.

Since the Secretaries of Agriculture and Interior have already granted liberal extensions under existing law, unless there is a bona fide reason to believe that these extensions are not legally proper, no additional statutory authority would appear to be needed to authorize further executive granted extensions on a blanket or case by case basis.

Contract term extensions present both pluses and minuses from the government's standpoint. If the sale timber is deteriorating, significant losses in revenue can occur. If the stand is growing, on a scale theory, there will be added volume which will be paid for when the timber is cut. On a lump sum sale (BLM's) the added volume benefits the contract holder.

Delays in cutting and paying beyond the contract termination date also can adversely affect county income, as well as Federal revenue. Further, the delay can reduce the agency's ability to make future sales in timber beyond the delayed sale.

As in the case of termination, extensions could be made applying standards and concepts of equity. They could also require to have taken into account adoption of cutting schedules for all contracts which are built around helping the firm work its way out of the problems that have been defined.

If a firm seeks relief it may be logical to have a policy which limits both the volume and value of the timber it may hold, as well as whether it may bid, until it is found to be in a position where it can proceed without supervision. Whether this duty should be in the hands of the agency administering the contract or as independent authority is an issue that ought to be addressed.

TIMBER PRICE REDUCTION FOR TIMBER UNDER CONTRACT

This is implied in the WRA termination procedure and has been suggested as a separate authority without termination. There is no way to apply this concept without injecting government into the internal affairs of a firm, even using a blanket or trigger level average price devised to deal with the situation. A trigger mechanism could have flaws and introduce inequities equal to those of any other formula approach. Termination and resale, at least in theory, lets competitive forces operate to "reprice" the timber, Administratively set revised prices on existing contracts does not. Any situation which dumps a large volume of timber on the market with low demand would dampen the competitive forces.

The private fee timber and the tax posture of a firm would make the effect of a reduction in price produce different benefits to various firms that are in the same competitive area. Administrative price setting without the leveling effect of free market competition could open a Pandora's box of problems. No additional alternative which undermines the free competitive market is suggested although other commentators may be able to recommend one which avoids this effect. The proposal that the Secretary of Commerce be empowered to administer an overall relief program with grants to needey firms obviously would produce the same result. However, the grant would be based on total need rather than a specific price reduction in a particular timber contract.

INEFFECTIVE PURCHASER CREDIT GRANT

This WRA proposal was advanced in 1975 and rejected then by the Ford Administration and the Congress. The 1975 proposal was much more limited than the current ideal that it should extend back to cover all contracts in effect over 7 years ago. The 1975 proposal would have applied only to contracts in existence on the date the legislative proposal became law.

This proposal appears to be essentially a subsidy to be granted timber firms without relation to the condition of the recipient, and without regard to the fact that every ineffective credit holder bought such sales with the clear knowledge that his road credit was limited.

The seeming inequity is caused by conditions beyond the control of the Government. The sale value of a timber when manufactured, less the cost to log including specified roads left a residual which was so small that even using the low minimum charges for stumpage, which do not cover government costs, the sale was estimated to yield less than the normal profit and risk allowance or not cover all the road costs. As a matter of logic, it really does not matter whether the "deficit" is assigned to roads, logging or milling costs. The sale appraises as marginal with all factors considered. What the agency does now is to apply the minimum price to the stumpage and offer to overcome some or all of the deficit with a grant of the ineffective road credit using a subsidy of appropriated funds. Thus the sale of the timber is subsidized. It simply happens that the only element in the appraisal where the subsidy can be conveniently applied is roads—as compared to a subsidy to mill the logs or cut down the tree.

The technical nature of the appraisal and pricing process masks the fact that there is a degree of subsidization inherent in these situations, despite the restriction since 1976 in Sec 6 (k) of the National Forest Management Act dealing with marginal lands.

Changing the 1964 Road and Trails Act to direct the ineffective credit be granted would codify this subsidy and statutorily override Sec 6 (k) of the NFMA.

Deficit sales are now made only when the appraisal computes that an operator of average efficiency would earn less than 75 percent of the normal profit if he bought the sale and a prospective purchaser still requests the sale be made.

The case for deficit sales rests on three premises:

(a) The timber is in such condition that it can be harvested but if left a greater loss will occur to the government through deterioration of this and adjacent timber from insects and disease. This is a bona fide reason for making some marginal sales but not for selling timber in an entire timber shed that is uneconomic.

(b) The industry in the area has no alternative timber and if National Forest sales are curtailed, it will be forced out of business. This implies that this condition is generally true for much of the timber that will be sold in the area and raises specific NFMA Sec 6 (k) questions. Of course it also raises a public policy issue unrelated to the current market condition— the subsidization of the sale of timber and the effect on timber in other regions as well as budget for timbers.

(c) The sale has such large initial road costs that the value for that specific sale is depreciated. However, when the entire drainage is considered, subsequent sales will overcome this one initial deficit. This type of situation suggests that public policy might be to construct the access roads prior to the sale. This would apply particularly in situations where an industry exists and it has no viable supply alternative. Building the road with Federal funds would avoid the dilemma of forcing these firms that buy the early sales to bear the impact of ineffective credit.

The existing statutory base permits treating all of these situations without a change in law.

A simple grant of all ineffective credit back to December 16, 1975 constitutes a substantial subsidy which, at the very least, deserves to be examined as to logic and equity. It does not assure that the grants will go only to firms that might demonstrate to an impartial examiner that they have, in fact, been pushed into a precarious financial situation because of the past practice, including the balancing of the augmentation subsidy they have already received.

The ineffective purchaser credit issue is judged to be separate from the market decline situation. Further, there are several large firms with operations in various areas which would benefit both from terminations and ineffective credit grants as proposed by WRA. Thus, in any legislative action where more than one type of relief is to be provided, consideration ought to be given to packaging the relief for each firm so that it is tailored and capped by consideration of its total position and benefits.

As to alternative approaches, the one that might be the most realistic would be for firms that qualify for relief and which have not undertaken construction of roads where the purchaser credit grant and augmentation do not cover the full road cost to be permitted, on existing contracts and a finding of hardship, to relinquish construction to the Forest Service. The price for the timber, when cut, would then be raised by the effective credit foregone.

Whether "deficit sales" should continue to be made, is a matter that can be addressed by the agency applying existing rules under Sec 6 (k) of the NFMA. Such sales also can be mitigated by avoiding sales with "deficit" appraisals and instead constructing roads in advance of sales in drainages where analysis shows that it is only the initial sales that have this situation.

SUMMARY

The current situation in the forest products industry reaches beyond the firms that make substantial use of Federal timber and is caused by conditions which are not necessarily created by Federal timber policies.

The major impetus for termination and the privilege of repurchase at lower prices comes from the portion of the Pacific Northwest where the strongest competition has existed and bids have long far exceeded Federal appraised prices. This wide gap has existed for over 2 decades and the industry has been bidding on the basis that the future just ahead would float off the prices paid as has occurred in the past. If the effect of Federal policies now adopted for the economy as a whole, which seeks to drive down inflation and the current interest rates and then restore the market for timber are worthy of support, then different or lesser interim actions—or none—may be the proper course. To grant the type of relief now sought may arguably undermine the basic policy the forest industry urges for the economy as a whole. This would be particularly true if the measures result in substantial revenue reductions which add to already growing budget deficits.

The drastic reduction in demand for forest products has curbed production significantly for hardwoods and softwoods, nationwide, affecting firms that depend on fee timber as well as those that use public or other purchased timber.

Reduced sales generally result in reduced tax revenues in jurisdictions that tax profits as well as in jurisdictions that use severance taxes for timber cut and receive a percentage of shared revenue payments from public timber. For some firms the situation may require significant retrenchment to weather the difficult times while others may in truth face bankruptcy. Governmental revenues may be differentially affected along with the firms.

A basic segment of society that feels the first impact even before companies are in serious trouble is the work force. Reduced production leads to layoffs.

This suggests that if the situation is exacerbated by the low demand for wood products to such a degree that governmental relief is desirable, consideration needs to be given first to the equity situation in allocating public funds, whether it be increased spending or reducing potential revenues.

If the Administration's judgment is correct, that the economy is in a "transitional zone," limited action may be sufficient, as a first step, if the transition period is now acknowledged by the Admistration to likely be longer than desirable.

The nature of the situation and the relation of the forest managing agencies to the timber purchasing firms, and the mission of these agencies, may make it desirable to consider, if relief is to be provided, that such a program should be under a department that deals regularly with business problems, housed in an agency with a predetermined life span which is equipped to treat the defined need.

This would also permit design of a total package that seeks to treat jobs, local government and industry needs with a specific budgeted amount.

Interim action could include:

1. Increased investment in public forest resources that meet profitability tests, useful work tests, resource investment tests and a positive finding that they will help meet emerging demand for wood as demand is restored by overall policies. This approach would not only provide jobs, reducing welfare and social costs, but also strengthen the competitive position of the natural resources base and increase near and long term future outputs. These programs would be operated by the resource agencies.

2. Determination of actions that may assist local governments that find their tax base hard hit so that essential local services are not jeopardized.

3. Actions which provide specific relief to companies defined as seriously injured, granted on a basis that assists them to reorganize their financial situation. Public interest tests would relate aid to need.

One of the elements that needs to be addressed is a careful determination of what can be done under existing policy and law as well as the extent to which current policy does not permit covering defined situations.

In any action that reduces revenues or requires additional authorization or spending, the basic issues must be dealt with first. Does the relief proposed in this situation open the door to similar and wider reaching assistance and likely to be so prolonged because the basic causes are either not going to to be treated or cannot be effectively treated by Administration policies, that diagnosed action is promptly needed?

Finally, there are so many complexities to an issue such as this that it is not possible to deal with every possible cause and effect, or to outline every issue in the time available. Hearings will provide an opportunity for citizen groups and official witnesses to address the situation in the terms that they see it and to suggest courses that can be taken. Such a record can be valuable in reaching a conclusion about whether the problem is sufficient to warrant Federal action, and if it is, to solicit a broad range of ideas from which to design a course of action that is commensurate with the problems that the public interest suggests should be treated.

An analysis of Estimated Possible Benefit to 105 Companies Holding National Forest and Bureau of Land Management Timber Uncut Under Contract if Permitted to Terminate 40% of Volume Held Plus 10 mil. b.f. *

SUMMARY

	2	3	4	5	6	7
	Uncut vol MM b.f.	Value per M.b.f.	40% + 10 mil. b.f.	Benefit $mil	Less Repurchase @ $50/M.b.f.	NET Company Benefit $mil.
All 105 Co.'s	21,941	229	9781	2409.0	489.1	1,920.0
1-10	8,098	212	3339	850.9	167.2	683.7
11-20	3,421	265	1470	436.3	73.5	367.4
21-30	2,390	230	1054	261.9	53.0	208.9
TOP 30	13,909	228	5863	1549.1	293.7	1,260.0

* Total estimated F.S. BLM timber uncut under contract is 35 bil. b.f. The above tabulation covers 62% of this volume, 22.0 bil. b.f. On this basis the estimated total benefit that would be conferred if all firms used the 40% + 10 mil. b.f. WRA proposal would embrace about 35 bil. b.f. and confer possible benefits totaling as much as $3 bil.

COLUMN EXPLANATION:

2 Mainly from data prepared by Western Resource Alliance produced from agency records by the Timber Data Corp. Includes some date directly from F.S. records on a few firmswith contracts in Idaho and Montana.

3 Value from WRA figures per M b.f. by firm except BLM, Oregon where $300/M was used as average and F.S. Cal., where $165/M from FS data was used.
Volume and Value does not include all timber each firm may hold under timber contracts.

4 40% + 10 mil. b.f. computed from listed data.

5 Benefit developed by taking highest average for any WRA listing for firm, rather than those contracts at highest value to yield 40% + 10 mil. b.f.

6 Resale value computed at average price bid for FS timber Western Ore-Wash for May 1982, which is $ 50.00/M b.f. excl of roads

7 Benefit computed at entitlement (5) less resale value (6).

CRS-
August 2, 1982

		Lincut Vol MMb.f.	Value per M.b.f.	40%+10 mil.b.f.	Benefit $mil	Less Repurchase @$50/M.b.f.	Net Company Benefit $mil
1	Roseburg	1264	303	516	181.7	-25.8	155.9
2	Boise Cascade	1113	168	455	116.9	228	94.1
3	Sierra Pac	1034	165	424	70.0	21.2	48.8
4	La Pac	1025	144	419	69.1	21.0	48.1
5	Diamond Int	797	187	329	76.4	16.5	59.9
6	Brazier	723	256	299	84.1	15.0	69.1
7	SW For Ind	601	260	250	89.5	12.5	77.0
8	Bohemia	567	288	237	834	11.9	71.5
9	Hines	511	144	214	30.8	10.7	20.1
10	Mtn Fir	465	219	196	49.0	9.8	39.2
	SUB-TOTAL	8,098	212	3339	850.9	167.2	683.7
11	Simpson	440	107	186	13.9	9.3	4.6
12	Will Ind	440	214	186	62.1	9.3	57.4
13	Pub Paper	369	267	158	43.3	7.9	35.4
14	Champ Int	350	326	150	56.3	7.5	48.8
15	Murphy	339	299	146	43.8	7.3	36.5
16	Alpine Veneer	327	132	141	40.5	7.0	33.5
17	Pope & Talbot	299	322	130	41.9	6.5	35.4
18	Medco	297	336	129	47.0	6.5	40.5
19	Bald Knob	284	286	124	50.7	6.2	44.5
20	Sun Studs	276	306	120	36.8	6.0	30.8
	SUB-TOTAL	3421	265	1470	436.3	73.5	367.4
21	Hampton	263	314	115	36.8	5.8	31.0
22	Crown Zeller	258	97	113	18.4	5.7	12.7
23	American For	256	165	112	18.5	5.6	12.9
24	South Coast Lbr	247	460	109	51.2	5.5	45.7
25	Hudspeth	238	220	105	23.1	5.3	17.8
26	Capfal	233	261	103	27.1	5.2	21.9
27	Wickes	228	165	101	16.7	5.1	11.6
28	Int Paper	226	240	100	34.3	5.0	29.3
29	Gilchrist	221	201	98	19.7	4.9	14.8
30	Fibreboard	220	165	98	16.1	4.9	11.2
	SUB-TOTAL	2,390	230	1,054	261.9	53.0	208.9
	TOP 30 TOTAL	13,909	228	5,863	1,549.1	2,93.7	1,260.0

3

	Uncut vol MMb.f.	Value per M.b.f.	40% + 10 mil. b.f.	Benefit $ mil	Less Repurchase @ $50/M.b.f.	Net Company Benefit $ mil
31 Vaagen Bros	199	46	90	4.1	4.5	- .4
32 Pacific	198	197	89	17.5	4.5	15.0
33 Big Flat	198	384	89	52.9	4.5	48.4
34 NW Wood/Young	195	274	88	24.1	4.4	19.7
35 Siller Bros.	191	165	86	14.2	4.3	9.9
36 Eel River	188	165	85	14.0	4.3	9.7
37 Summit	187	194	85	16.4	4.3	12.1
38 Tomco, Inc	182	384	83	31.8	4.2	27.6
39 Mezama	170	282	78	22.4	3.9	18.5
40 Rosboro	169	303	78	23.7	3.9	19.8
SUB TOTAL	1,877	237	851	221.1	42.8	178.3
41 Modoc	160	213	74	15.9	3.7	12.2
42 Elk Lake	158	325	73	24.1	3.7	20.4
43 Erickson	157	165	73	12.0	3.7	8.3
44 Potlatch	154	89	72	6.4	3.6	2.8
45 Wetsell Oviatt	153	165	71	11.7	3.6	8.1
46 Northside	150	341	70	23.8	3.5	20.3
47 Foresthill For	148	165	69	11.4	3.5	7.9
48 Seneca	143	368	67	24.7	3.4	21.3
49 Georgia Pac	143	362	67	25.3	3.4	21.9
50 Multnomah	135	293	64	12.8	3.2	15.6
SUB TOTAL	1,501	246.	700	174.1	35.3	138.8
51 Avison	133	320	63	20.1	3.2	16.9
52 Ellington	128	58	61	3.5	3.1	.4
53 Hi Ridge	126	165	60	9.9	3.0	6.9
54 Cedar/Lyons	122	377	59	22.9	3.0	19.9
55 Kogap	120	284	58	16.6	2.9	13.7
56 Seaboard	117	235	57	13.4	2.9	10.5
57 Vanport	116	192	56	10.8	2.8	8.0
58 Fort Vancouver	114	240	56	13.4	2.8	10.6
59 RHD Elma	112	167	55	9.1	2.8	6.3
60 Plum Creek	110	125	54	6.8	2.7	4.1
SUB TOTAL	1,198	217.	579	126.5	29.2	97.3
31-60 TOTAL	4,576	235	2,130	521.7	107.3	414.4

61	Freres Lbr	110	365	54	20.8	2.7	18.1
62	Triangle	103	391	51	19.9	2.6	17.3
63	Whipple	101	274	50	13.7	2.5	11.2
64	NW Log	98	153	49	7.5	2.5	5.0
65	Lane Plywood	96	259	48	12.7	2.4	10.3
66	E.B. Yancey	95	165	48	7.9	2.4	5.5
67	D.G. SHelter	94	167	48	8.0	2.4	5.6
68	Manke Lbr	94	200	48	9.6	2.4	7.2
69	Hobin Lbr	92	425	47	20.4	2.4	18.0
70	Stevenson	90	277	46	12.7	2.3	10.4
71	Puget Sound	87	245	45	11.0	2.3	8.7
72	Davidson Ind	85	252	44	11.0	2.2	8.8
73	Buse Timber	85	130	44	5.7	2.2	3.5
74	Mt. Adams Ven	85	392	44	17.2	2.2	15.0
75	Cromen	85	165	44	7.2	2.2	5.0
76	Ochoco	84	227	44	10.0	2.2	7.8
77	Pine Prod	84	42	44	1.8	2.2	- .4
78	Merrill & Ring	83	168	43	7.2	2.2	5.0
79	Susanville	80	165	42	7.0	2.1	5.1
80	Harwood	79	165	42	6.9	2.1	4.8
81	Arden Lbr	79	58	42	2.4	2.1	.3
82	Wilk,Kais,Olsen	74	165	40	6.6	2.0	4.6
83	Hanel Lbr.	72	180	39	7.0	2.0	5.0
84	Suntip Co	71	300	38	11.4	1.9	9.5
85	Mt. Baker Ply	71	112	38	4.3	1.9	2.4
86	Collins	71	165	38	6.3	1.9	4.4
87	Pine Mtn	71	165	38	6.2	1.9	4.3
88	Weyerhaueser	68	257	37	9.5	1.9	7.6
89	Cascade Res	68	256	37	9.4	1.9	7.5
90	E.F. Burrill	66	247	36	9.1	1.8	7.3
91	Hoh River	63	137	35	4.8	1.8	3.0
92	Astcria Ply	62	180	35	6.3	1.8	4.5
93	Fremont	61	194	34	6.6	1.7	4.9
94	Kinzua	61	19	34	.6	1.7	-1.1
95	Latimer & Sons	60	202	34	6.9	1.7	5.2
96	Chiloquin	60	337	34	11.5	1.7	9.8
97	Moore/Mill Lbr	57	300	33	9.9	1.7	8.2
98	W-I For Prod	56	107	32	3.4	1.7	1.7
99	Rede	56	165	32	5.4	1.7	3.7
100	Lakeview	56	47	32	1.5	1.7	- .2
101	Wienert	54	165	32	5.3	1.7	3.6
102	Main Ind	54	165	32	5.3	1.7	3.6
103	Calandor	53	165	31	5.1	1.6	3.5
104	Anderson, g.	53	150	31	4.7	1.6	3.1
105	Guy Bennett	51	64	30	1.9	1.5	.4
	61-105 TOTAL	3,378	227	1799	369.6	89.2	278.7